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THE EUROPEAN COMMISSION IN THE CAP DECISION MAKING: A CASE STUDY ON THE SUGAR REFORM

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Abstract

This paper represents the first step of a wider research project on the relation between the EU institutional settings and the policy outcome. We specifically tackle the CAP definition process and the role of the Commission inside consultation procedure, proposing a case study on the sugar CMO reform of 2006. Using and adapting the theoretical framework proposed by Putnam (1988) we first check the suitability of sugar for such analysis than we reconstruct the various phases of the sugar CMO definition process evaluating qualitatively, the main issue in discussion, MSs position in relation also to the final outcome and the role played by the Commission in this context.

The analysis is carried out as a documental study in which we collected and evaluate the documents produced by different bodies during the reform process together with interviews with commission internals in order to validate our hypothesis.

The objective is to point out winners and losers of the reform process, highlighting the circumstances in which the Commission could have acted in order to compensate losers. Moreover, understand how such compensations could have helped the Commission in safeguarding the guidelines for the reform it supports.

Keywords: CAP Reform, Sugar reform, Institutional settings, Consultation procedure, CMO

JEL Code: Q10; Q18

Introduction

The last ten years have represented a period of major changes for the Common Agricultural Policy (CAP). The first elements for a substantial change have been introduced with the so called MacSharry reform in 1992. Specifically, a market orientation process of the CAP started with the establishment of a partial decoupled aid and a significant reduction of the guaranteed prices for the farmers. The core elements of the 1992 intervention found their last expression in the guidelines and instrument shaping the Fischler reform in 2003. In this occasion the decoupling was extended to a wider range of agricultural products and its nature was deepened, through the complete decoupling between financial support and farmers' choices. Simultaneously the aid has been linked with the compliance of a set of measures concerning the environmental sustainability of the whole sector.

Along with the evolution of CAP policy instruments, the role of the European Commission (COM) within the decision making process has been changing too. In order to understand such a change, a comparison can be made between the so called "price marathons", which have characterized the negotiations during the first phase of CAP evolution, and the negotiations that leaded to MacSharry reform, and particularly to the Mid Term Review (MTR). In the first case, the Commission acted as simple mediator between MSs Preferences on the level of institutional prices. On the other hand, during the 1992 reform, and in the definition of the MTR, the COM has been able to propose new schemes of intervention in agriculture safeguarding at the same time the core nature of the reform, notwithstanding the difference in MSs Positions and consequent pressures towards a "status quo" solution. From this point of view it is likely that the COM has developed several instruments to close the gap between its position and the ones express by the MSs, building a complex system of side-payments to steer the negotiation to a positive political solution.

The general aim of our research is to achieve a full understanding of the institutional and political conditions allowing the COM to use side-payments as leverage tools to "move" MSs Preferences towards an agreement in which its preferences are encompassed. Specifically this paper is devoted to point out, inside a specific legislative procedure, the steps and the institutional channels in which the COM can act in order to close the gap between MS's position. In other words, to point out the circumstances in which the Commission first takes stock of MSs Preferences (i. e. in bilateral meeting concerning technical aspects) and then proposes intermediate compromises in order to "soften" political divergences.

Understanding how the COM uses side payments and manages the negotiation is crucial to comprehend in which direction the recent and impending changes of the EU institutional framework can affect COM influence over CAP reform process. On one side the last enlargements have multiplied the number of instances the COM has to face to, making the negotiation more complex. On the other, the Reformed Treaty, if ratified, will adopt co-decision as legislative procedure under which CAP is defined. This will not only modify the

formal aspects of the procedure through the entrance of the European Parliament (EP), but will also affect the existing system of informal relations and operative solution through which the COM exerts its active role.

The general research project is based on a theoretical background originated by the Putnam's conjectures over the interdependence between domestic politics and international agreements (Putnam, 1988). In this framework we insert the peculiar nature of CAP decision making in terms of preferences and legislative procedure. We than propose a case study on the recently reformed sugar CMO. Through the case study we assess the evolution of the relevant issues faced in the different steps of the procedure. The aim is to draw a framework of the institutional channels through which the actors take stock of the respective position and evaluate if there is a correspondence between the nature of the issue - if technical or political - and the phase of the procedure in which they are faced. Once the institutional framework is defined we will evaluate the positions of the various actors involved over the specific issues and analyze the changes in the policy shape through the intermediate agreements between the COM and the MSs. Finally we will gather the collected data in a formal model assessing influence of the COM and specifically the effectiveness of the side-payments according to the final policy outcome.

This paper carries out the first steps of the research project: theoretical framework and research question; institutional channels provided by the consultation procedure; relevance and fitness of the selected case study according to the research objectives; key issues of the negotiation and intermediate agreements along each phase of the legislative procedure. Thus we propose an analysis of the documents produced in the various steps of the procedure by the different bodies involved. For each document, we report the issue in object, the correspondent phase of the procedure and the bodies involved in the discussion. The expected result of the case study is a clear picture of how and where every specific issue has been afforded. At this preliminary stage we will not tackle the specific contents of the documents, but only the structure of the negotiation and the main channel of the discussion.

The study is organized in five sections. In the first section we discuss the theoretical background to which we refer in order to interpret the result of the analysis. The third and fourth sections are devoted to the discussion of the case study; the documents we analyzed and the results we obtained. Finally we draw some conclusion and we link the achieved results to the further research steps.

Theoretical Background

In this paragraph we propose the theoretical background of our analysis. First we present the general framework proposed by Putnam (1988) for the analysis of the international relations and how this framework could be used to represent the MSs bargaining within the CAP context. Subsequently we present the scope of our analysis as an extension of

this framework, presenting a bargaining scenario suitable for our analysis. Finally we discuss specifically consultation procedure and its effects on the political process.

Putnam's conjectures and the CAP

Putnam (1988) contribution greatly helped in clarifying two central aspects of the international relations. On the one hand, the role of the entanglements between the domestic politics and the international arena, on the other, the development of the *win-set* definition and its application to the negotiation for reaching international agreements. He conceived the entanglements between international negotiation and domestic politics as a game of ratification of international treaties, defining level I the international «*bargaining between the negotiators, leading to a tentative agreement*»; and level II as the «*separate discussions within each group of constituents about whether to ratify the agreement*» at domestic level. In this framework he defined «*the win set for a given level II constituency, as the set of all possible level I agreements that would win when simply voted up or down*». In such a framework, the final agreement is possible only if the actor's positions overlaps over a determined issue. The size of the win set, and hence the bargaining position, are affected by issues operating at the so called *level II*. The negotiators operating at level I are constrained by the domestic implications of the agreement reached inside the international arena, hence, the more the domestic positions are “*flexible*” over the considered issue, the more the negotiator will increase its bargaining power.

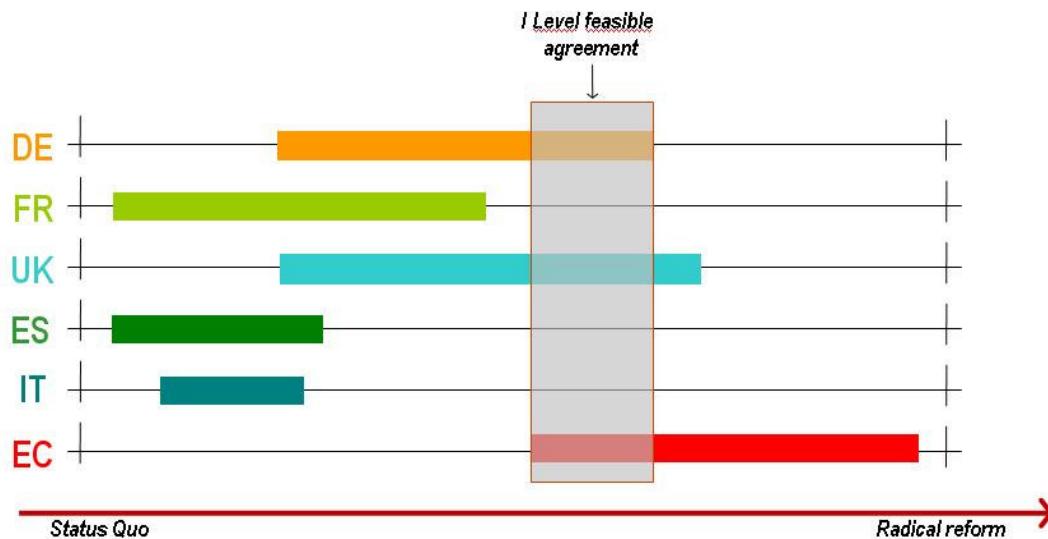
Putnam's contribution seems to provide a valuable theoretical approach to the CAP decision making. As explored in detail by Cavallo et al. (2007), the context in which the CAP reform process takes place can be effectively described as an interaction between domestic interests (level II) and common concerns (level I). The win-set is characterized by: a) its position along a hypothetical line ranging from *status quo* to “radical reform” and b) its dimension (or size) providing all the potential reforms politically sustainable in the domestic arena. From this point of view, the position expressed by the single member state inside the Council can be related to a series of characteristic of the agricultural sector in each country. The win-set dimension is affected by the economic and social relevance of the agricultural sector in the domestic economy. The win-set position is affected by the nature and the structure of the domestic agricultural as well as countervailing interests. Finally, the international level (level I) negotiations are affected mainly by two orders of factors. On one side, the general political concerns of the national policy makers, such as for example the traditional support/opposition to CAP measures and instruments. On the other side, the institutional and political relationships between each MS and the EU institutions (namely the COM and the European Parliament) in terms of distances from the proposal and capability/possibility to establish a “*preferential*” dialogue with the COM.

We focus the analysis in this paper on the level I determinants and specifically on how a “*preferential*” dialogue between some MSs and the COM can affect the distribution of the bargaining power among MSs. Cavallo et al. (2007) have pointed at the dialogue with the COM as one of the main determinants of MS’s bargaining power in the CAP reform process. The contribution we propose can be considered as an extension of those results toward a better specification of the instruments used by the COM and hence of the effects that the COM active role has on shaping the CAP reform process.

Bargaining scenario for the analysis

The bargaining scenario in which we perform our analysis is rather relevant for the characterization of the actor’s respective roles and the impact of their activity on the final outcome. Specifically, MSs Positions and COM policy preferences have to figure out a bargaining context in which COM active role is decisive for a positive solution of the legislative process. Cavallo et al. (2007) have described the institutional settings and the bargaining scenarios in which the COM can perform an active role along the negotiations. In such a scenario the MSs Positions tend to be spread and rather distant over the possible policy outcome and the COM has to promote a specific solution for the policy in discussion. A specific policy outcome might be imposed by strong pressures insisting over the COM coming from various sources such as: stakeholders and interests groups, international commitments (i.e. WTO and surroundings), EU budget constraints, consistency with other EU policies, etc.

Figure 1 - CAP bargaining scenario with an active role of the COM and a wide range of position for the MSs



The outlined scenario is represented in Figure 1, where the horizontal stripes represent the actor's (MSs and COM) win-sets at level I and the vertical band indicates the sample of the feasible potential agreements. In the figure emerges clearly that some MS states win sets, namely Italy Spain and France, are out of the range of the final outcomes the COM can accept given its win set. In such a context it is likely that the COM acts in order to move the positions of the most reluctant MS towards an agreement that encompasses its preferences. This is a very simplified but not just an "*imaginary*" scenario. As stated in the introduction the process of definition of the MTR could provide a quite good example.

In the first stages of the procedure, the CAP reform package proposed by the COM founds the strong oppositions of some MSs. Then the negotiation started and the final outcome of the reform process safeguarded the spirit of the COM proposal. During the procedure the COM has been able to steer MSs Positions and preferences keeping unchanged at the same time the fundamental structure of the reform. Various factors could have enhanced the COM capacity to promote its position, or weakened the MSs ability to defend the status quo, but surely the COM played a central role steering the reform within its winset.

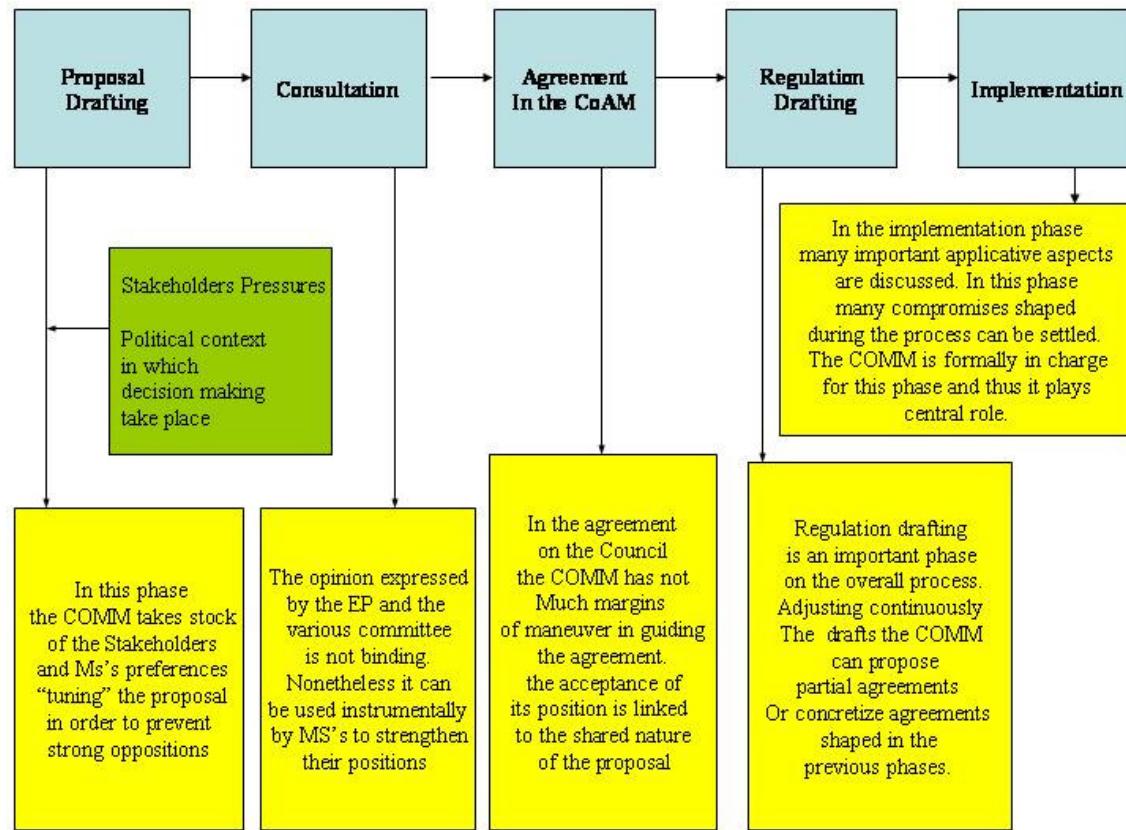
Consultation

Although the political scenario discussed above give some general explanations for the active role of the COM, the aims of our analysis impose a more detailed description of the institutional opportunities granted to the COM by the legislative procedure involved in CAP-first pillar definition. In this paragraph we will briefly describe the relevant steps of consultation procedure highlighting for each step in which directions the COM exert an active role. The procedure formally starts with the submission to the Council of an official proposal for regulation by the COM. The proposal can be amended by MS and is approved by the Council under the qualified majority rule or refused. Once the Council reaches a political agreement, the COM together with the Committees is appointed by the Council for managing the drafting phase of the applicative regulation and the implementation phase of the new measures. This simplified version of the consultation procedure is reported in Figure 2.

As shown in figure 2 the proposal which the COM submits to the Council is the result of a drafting process which begins long before the official submission. Usually the proposal drafting starts with a document in which the COM communicates to the other legislative partners the purpose of an intervention, the current situation of the sector involved and the possible solution for the new legislation. Based on this document a discussion among the actors starts. The MS and the stakeholder, by various means, communicate with the commission their opinion about the perspective proposal and based on impact studies the possible effect of the reform. Although its informal nature the drafting phases of the proposal represent a decisive step in which the COM is the centre of a complex net of communications. From its privileged position the COM takes stock of the MS and stakeholder positions, and

evaluates the relative practicability of different solution together with the strength of the oppositions. During this phase the proposal is reshaped on the base of its feasibility and eventually accordingly to intermediate compromises between the COM and the MS.

Figure 2 - Stylized Consultation procedure with the activity the COM can exert in each phase.



Once the COM submitted the proposal to the Council, opinions from the European Parliament (EP), the Economic and Social Committee and Committee of Regions are required. The role of the EP and the Committees is disregarded in our analysis standing the non-binding nature of the amendments and the opinions proposed, although their advices over the direction of the reform could be instrumentally used by some of the actors to strength their positions. The Commission evaluates the amendments eventually propose by the EP and consequently modify the proposal which in this new form is submitted to the Council. Here, the controversial aspects of the proposal are taken into consideration; MS can propose amendments voted under unanimity rule. Before the proposal is discussed and amended by the Council, an important work of mediation is developed inside the Special Committee for Agriculture (SCA). The SCA is the equivalent for the Coreper, which accomplish the same function for all the others EU intervention areas. Inside the SCA the MS interact between them and with the COM in order to find political and technical solutions which satisfy the wider range of preferences. In fact the outcomes of the SCA are classified in “A points” and “B points”. “A points” are directly voted by the Council without any further discussion this

means that an agreement, although without any formal vote, has been reached between the COM and the representative of the MS. For the “*B points*” an agreement at a higher level is needed thus the separate discussion and vote inside the Council. The COM in this process can actively influence MS position proposing agreement and facilitating the discussion. The formal vote inside the Council concludes the political process but not the legislative procedure. The regulation drafting and the implementation phase are, by appointment, directly under control of the COM. This means that in those phases new compromises are possible and also that implicit and in some cases bilateral compromises, eventually settled in the previous phases, are made concrete. Of course the nature of such compromises must be technical and administrative but they may have facilitated the achievement of a political solution.

The framework we developed so far tries to give an overall picture of the work of the COM during the legislative procedure. The nature of the policy, the distribution of preferences and bargaining power between MS and Institutions can affect the channels in which the COM can operate. What we wanted to highlight here is that despite the rigid framework imposed by the procedure in terms of competences and powers, there is a political level of the decision making that the COM can explore in order to influence the outcome towards its preferred solution.

In the remaining of the paper we will analyze these aspects for the case study. First we clarify why sugar can be taken as a good example of bargaining scenario than we analyze the discussion over specific issues involved in the reform. Finally we draw some intermediate conclusion which can serve as a basis for the analytical evaluation of the Commission role.

Case Study: The Sugar CMO reform

The case study we propose examines the definition of the sugar CMO reform started in September 2003 and concluded in June 2006. The motivations of such a choice are related to five factors.

- First, the sugar was not included in the MTR of 2003. This was due to the complex nature of the existing CMO and to the uncertainty related to the disputes ongoing in the international arena. From the analytical point of view this is rather important, because it allows the clear definition of actor's positions and the evolution of the single issue over the various phases of the procedure.
- Second, the positions expressed by the Member States were rather distant both on the guidelines of the intervention and on the specific issues such as quota reduction, price cuts and transitory measures.
- Third, the Commission position was clear both on the timing and on the issues involved in the reform.

- Fourth, the relevance of the sector for the commitments that the EU has to fulfill with its international partners. Those aspects are considered as constraints, especially over the urgency of a reform and on some technical issues as price levels and import/export management.
- Fifth, in relation to the framework in which we base analysis, sugar reform represents correctly the situation in which the active role of the Commission could be amplified. Actor's positions are multifaceted and distant: the articulation of the sugar agribusiness involves important and differentiated interests. Furthermore, the Commission is concerned about specific outcomes of the negotiations, and moreover it is urged in complying with commitments taken in different negotiations contexts.

In the next sections we will first analyze the reform process as a whole; for each relevant issue we will present the status quo situation, or the starting level for the negotiation, and we will evaluate their evolution during each phase of the procedure. Then we will specifically tackle each issue and the discussion inside each phase in order to evaluate the final outcome in the light of the positions expressed by member states and the Commission. This will allow us to relate the final outcome to the range of position, pointing out winners and losers and identifying also the circumstances in which the Commission could have played the role of facilitation/guidance of the negotiation.

This preliminary explorative analysis is based on the documents¹ produced from the Council and the Commission during each phase of the procedure. We used the status quo, the Commission proposals and the Presidency Compromise as *bench marks* of the sugar CMO reform in which the views and the positions expressed by all the partners are synthesized in a single outcome. We have also explored the discussion inside the Committees and Working Group involved in CAP definition where MSs and Commission representative express their positions over each political and technical issues. We completed the analysis with interviews and exchanges of opinions with Commissions internals to validate our hypothesis.

The sugar reform: an evolutionary overview

As stated in the previous section our analysis is composed of two different parts. The first one operates at a general level highlighting the differences between the *bench marks* of the negotiation. The second part evaluates MSs Position with respect to the negotiated outcome.

In this subsection we present the evolution of the issues involved in the reform in each phase. The sources of information are the Commission introductory document (COM (2004) 499), the official proposal (COM (2005) 263) for the sugar CMO reform, and the agreement reached inside the Council (Doc. n°14982/05). We report for each aspect the status quo situation, the proposed modification and the finally agreed outcome. The objective is to

¹ A complete list of the consulted documentation is available in appendix 1

individuate the main components of the negotiation and answer basic questions such as: how much each steps of the procedure differs from the previous one? Which elements the Commission has been able to defend along the procedure? How far the final agreement goes is compared to the status quo? Which aspects can be defined as crucial for the Commission? In Table 1 we have synthesized each issue in its fundamental components and we have highlighted with different colors what has changed between the Commission proposals (in blue) and what has been changed or added by the compromise in the Council (in red).

On a general level we firstly emphasize that for the proposal concerning the sugar CMO reform the Commission has considered necessary to produce two distinct documents. In the first one - July 2004 - the Commission outlined the general guidelines for the reform, indicating briefly some of the instruments for a sustainable policy. In June 2005, the Commission submitted a new version of the document which represents the official proposal for a regulation. Between those documents almost a year of intense discussion has been conducted. The comparison between them shows important modifications to the instruments proposed in the direction of a more “acceptable” base for further negotiations. The Commission, thanks to the discussion between the proposals, have “weighted” MSs positions and evaluated the most suitable solution in order to satisfy simultaneously its own vision for the future of the sugar sector and the constraints imposed by MSs preferences and the international arena. This behavior has helped the Commission to conduct the wider discussion possible individuating the best structure for a widely accepted and effective reform. In greater detail, the value of the proposals as negotiation tools emerges clearly considering the options for quotas and prices. In the first communication (COM (2004) 499) a combined reduction of quotas and prices was conceived, mixing two of the initially separated reform scenarios described in the introducing document of 2003². Such a solution encompasses two instruments which will result in a double oriented policy. On one side, price reduction stands as a market orientation toll in the direction of liberalization. On the other, quotas reductions impose stronger constraints to producers, especially for the ones who operate in the most productive areas.

The second information we can derive from the table is the structure of the reform that the Commission wanted to propose. The core of the intervention was a mix of instruments which aimed in accomplishing two objectives. First reduction of the market surplus in order to decrease the budget expenditures and accomplish with the international trade commitments, second mitigation of the negative effects of such reductions on beet growers and sugar producers through a set of old *ad hoc* instruments.

Institutional price reform was based on the abolition of the intervention price and the creation of a reference price for the whole sector. Reference price served as the key price for the definition of the minimum price for beet grower, price level which triggers the private storage mechanism and the price for border protection. Reference price reduction was

² COM(2003) 554

conceived in three year with a 37% price cut. As it concerns quotas, the reduction was planned in four years for a total quota cut 16%. For market balance tools and restructuring scheme the Commission proposed the development of a private storage mechanism, together with the possibility to transfer quotas among MSs and the institution of an aid for sugar producers which withdraws their quotas. The restructuring found was planned to be co-financed by the Commission and the MSs. The income reduction for beet growers due to price reduction is mitigated by a direct payment which covers the 60% of the loss. No coupled aid, even as a transitory measure, was conceived in the Commission proposal.

Table 1 - Resume of the evolution of the issues involved in the sugar CMO reform

		Status Quo	Elaboration of the COM Proposal		Compromise/Regulations
			COM (2004) 499	COM (2005) 263	
Prices	Sugar Reference (€/t)	631,9	506 → 421	631,9 → 385,5	631,9 → 404,4
	Reduction / Years	-	25 → 37 % / 3	0 → 39 % / 4	0 → 36 % / 4
	Sugar Beet Min (€/t)	43,63	32,8 → 27,4	32,8 → 25,05	32,9 → 26,3
	Reduction / Years	-	25 → 37 % / 3	24,8 → 42,5 % / 4	24,5 → 39,7 % / 4
Quotas	Level (mln t)	17,4	16,1 → 14,6	17,4	17,4
	Reduction / Years	-	7,5 → 16 % / 4	0 / -	0 / -
	Supplementary Quotas (mln t)	-	0	1,1	1,2
	Merging A/B	-	yes	yes	yes
	Quota Declass.	yes	no	no	no
	Quota Trasf.	no	yes	no	no
Market Balance Tools	Duration- Regime	2006	2009	2014	2014
	Sugar Intervention	yes	no	no	yes, transitory, 60% ref. price
	Private Storage	no	yes	yes	yes
Restructuring Fund	Carry-over	yes	yes	yes	yes
	Aid Sugar Producers (€/ quota)	-	350	730 → 420	730 → 520
	Duration	-	5	4	4
	Contribution to the Fund (€/ quota)	-	175	126,4 → 64,50	126,4 → 113,3
	Duration	-	5	3	3
Payment Beet Growers	Others Measures	-		Regional Diversification Aid increase if severe quota reduction Transitory aid for full time refineries Compensation for machinery suppliers	
	Overall EU Envelope SFP (60% income loss)	no	1340 mln €	1542 mln €	1542 mln €
	Coupled Aid (30% income loss)	-	no	no	Ms with quota red. + 50% FFAOG guar. Financing 2006 → 2014 Temporary National Aid Authorized financing 2006 → 2014

Starting from the structure described so far, the Commission has been able to safeguard only part of the initial proposed reform. Specifically, price restructuring/reduction has been object of minor modifications, and many of them introduced by the Commission itself. The agreement in the Council adjusted slightly the price cut and introduced a temporary maintenance of the intervention price at a level of 60% of the reference. Substantial changes with respect to the 2004 proposal have been introduced by the Commission on: quotas, restructuring fund and amount of payments for beet growers. The Commission cancelled the compulsory quota cut, and the possibility for quota transfers among MSs, extending the quota system to 2014 instead of 2009. In its official proposal, the Commission established also larger and longer subsidies for sugar producers together with a slighter financial contribution

by the industry. Finally the Commission increased the envelope for the direct payment of the beet growers (+13%).

The Presidency Compromise amended all those aspects. Specifically, it has introduced supplementary quotas for some MSs, increased slightly the aid to the sugar industries and introduced a temporary coupled aid for those MSs which voluntarily reduced their quota. Major modifications have been introduced by the Council in the restructuring scheme. The Council added several important aspects as regional diversification of the aid, aid increasing in case of severe quota cuts and a set of compensation for full time refineries and machinery suppliers.

The steps of the sugar reform process provide a clear picture of the different roles played by the main UE institutions. The core of the reform has been substantially preserved, even if only through the instrument of price reduction no more combined with a compulsory quota cut. The Commission itself adjusted substantially the initial proposal by significant changes in the key and permanent pillars of the reform: prices, quotas, key parameters of the restructuring fund. The Council introduced minor changes on prices and transitional measures concerning the restructuring fund and the payments to the beet growers targeted to soften the impact of the reform and accompany the structural adjustment of the whole sugar industry. Specifically, the maintenance of a transitional coupled aid and the extension of the restructuring fund to refineries and machinery suppliers have reduced the impact of the reform on the industry profitability and retained a certain digressive level of protection for few years. Such additional measures are all temporary and did not prevent the overall objectives of the reform which consist in extending the decoupled scheme to new CMOs and reducing the gap between the domestic and the world market. From this point of view the final agreement did not go too far from the Commission proposal in either a conservative or a reforming direction.

Such a picture suggests that most of the main negotiations among MSs occurred between the first and the second proposal with the strategic management of the Commission. The multidimensional nature of the reform made available several technical and technical-political arguments to the Commission to drive MSs with radically different positions toward a sustainable compromise, which is not so far, at least in the key issues, from the original ideas of the Commission about the sugar reform.

The Sugar Reform: winner, losers and the role of the European Commission

In this subsection we will evaluate MSs Position with respect to the agreed outcome. The objective is to point out winners and losers of the reform process, highlighting the circumstances in which the Commission has acted in order to compensate losers MSs. Moreover, we aim at understanding how such compensations could have helped the Commission in safeguarding the guidelines of the reform it supports.

Although we recognize the importance of the stakeholder pressures in the EU decision making, and particularly on sugar sector, the effects of such pressures on MSs Positions are disregarded for the moment. This is related to the preliminary and explorative nature of our case study which is not affected in its results by such a simplification. Referring to Putnam's framework, in this analysis we are only considering inside level one the specific role of each actor, specifically on the Commission's role and activity.

Our analysis starts from the decomposition of the negotiation in 3 fundamental phases of discussion. First we have analyzed the pre-proposal discussions in which, from the options presented by the Commission in the document COM (2003) 544, MSs have raised questions and remarks revealing their preferences. Secondly we have examined the discussion between the proposals evaluating MSs Positions with respect to the instruments raised by the Commission to figure out the sugar reform. Finally we have evaluated the regulation agreed in the Council pointing out which MSs can be considered winners and losers. We have finally summarized the results obtained by the documental research, pointing out which aspects of the agreed reform can be considered as side payments for the losers.

Pre-Proposal phase: Revealing MSs Preferences

Before the submission of the first Commission proposal an important discussion on the base of the document COM (2003) 544 has been developed. In the cited document, the Commission proposed three options for a new asset of the sugar CMO, together with a detailed impact assessment. The three options are summarized in Table 2. In this phase MSs have raised general questions and preliminary evaluations of the instruments raised by the Commission. The discussion can be divided in two main parts. On one side, the preliminary responses to the options proposed, on the other the concern raised by the Commission about the timing of the reform.

Table 2: Options for Sugar Reform.

Options	Quota Retention and little price reduction
	Price reduction with no quotas
	Liberalization: No price set by EU, quota abolition.

Source: Doc n° 13843/03 - 14327/03 - 14634/03

As stated above, the questions raised and the opinions on the options remain on a general level. The provisional nature of the position expressed by MSs does not prevent a preliminary classification of the Countries into groups supporting each option. In Table 3 we

have summarized the three options, the MSs supporting each option and the specific remarks justifying their support. A more detailed situation can be outlined for the timing of the reform, in the Table 4 we present the main concerns of the Commission about the timing, the position assumed by MSs and their remarks.

Table 3: MSs Support to the options proposed for a sugar reform.

Commission options	MSs Remarks	MSs
Quota retention and little price reduction	Mainteinance of the current production Opening EU market (EBA, ACP).	Finland, Romania, UK
Price reduction with no quotas	Considered the most politically realistic.	France, Netherland, Germany
Liberalization	Other options not sufficiently far reaching	Denamrk

Source: Doc n° 13843/03 - 14327/03 - 14634/03

From the data collected it emerge a situation in which the most competitive countries support an intervention even if through different instruments. This is shown in Table 1 where Romania and UK are in favor of a quota reduction. Netherland and Germany are more “attracted” by a price reduction with quota abolition. In this context we found no southern European Countries in favor of any of the reform options. This emerges clearly if we read the two tables in parallel. In table 4 Greece, Spain and Italy conceives the reform too early if compared with the situation of the sugar market. On the opposite, the front which agrees with the Commission timing is composed by all the MSs which support at least one option for the reform.

Table 4: Positions of the MSs on the Commission's timing concerns.

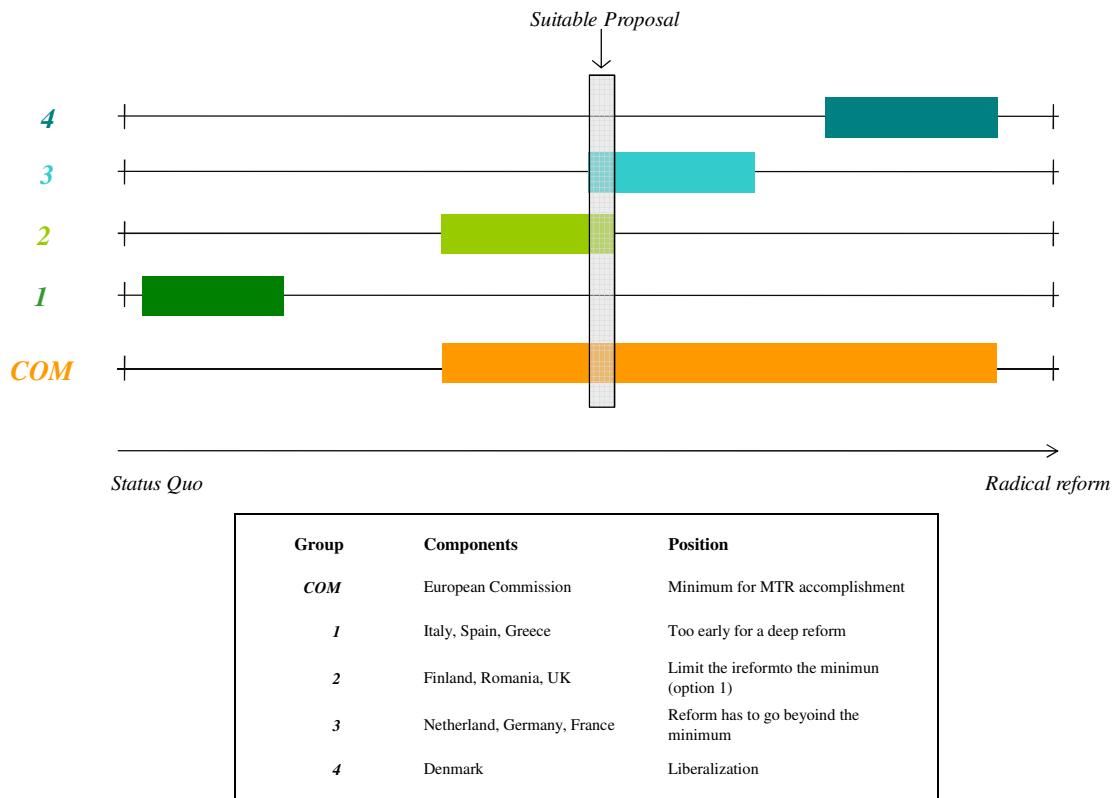
Reform Timing Concerns	MSs Reaction	MSs
1 - Not in favour of waiting the end of the regime in 2006 to set up a reform.	Welcomed the discussion on the sugar reform	Belgium, Germany, Finland, UK, Netherland, Denmark
2 - Expiry of the WTO peace clause in Dec. 2003.		
3 - Outcome of the WTO panel.	The discussion and a provisional reform are too early coincieved,	Italy, Spain, Greece
4 - Need for anticipating the impact of supplies from LDC's and the Balkans.		

Source: Doc n° 13843/03 - 14327/03 - 14634/03

We can now summarize the information obtained using the theoretical framework developed above. We can thus use the concept of win-set to depict the scenario of the pre proposal stage. We divided MSs in four groups, and derived their position starting from the

Commission's options which has been used as a "proxy" of its position in the early stage of the negotiation.

Figure 3 - Positions of the MSs after before the first Commission's proposal



Source: Doc. n° 10428/04

More in dept, MSs gathered in group 1 are all against the proposed intervention and their main concerns are related to the continuation of the production of sugar in certain areas. Group 2, which prefers option 1, is in favor of a "soft" reform especially in terms of price and quota cuts, which has to be the minimum possible to accomplish the strict requirements of consistency with the MTR. The Commission position ranges from the "minimum for the MTR accomplishment" and the most radical reform options, liberalization. In this range the Commission will structure its proposal encompassing the highest range of positions possible under the constraint of a minimum level of reform. Indicatively the suitable proposal is represented by the vertical band.

The MSs and Commission positions set-up shown in figure 3 represent the starting point in which insert the first Commission proposal and the discussion which conducted to the official regulation proposal of the June 2005. In the next paragraph we will analyze the discussion over the Commission first proposal pointing out MSs reactions to the reform instruments proposed and the actions undertaken by the Commission in order to safeguard the guidelines and instrument it proposed.

Between the proposals

The discussion between the Commission proposals reveals important elements. First, the concerns and preferences of the Commission are clarified. Second, MSs expressed their position more specifically. Third the value of the first proposal as a negotiation tool emerges and is specifically related to MSs Position.

As it concerns the guidelines, the Commission stated clearly in the document n°15445/04 which factors it consider crucial in sugar reform - summarized in Table 4. These factors are matter of discussion between MSs which expressed their preferences. We summarized such a scenario in Table 5.

Table 4: Commission proposals – Guidelines

Commission Guidelines			
1 The regime for sugar should be in line with the MTR and the EU must fulfill specific requirements in the international arena	2 Institutional support price reduction, abolition of the intervention , creation of a reference price	3 Minimum price for beet growers derived from the reference price	
4 Partial compensation (60%) to beet growers in the form of a decoupled aid	5 Reduction of the EU quotas and merging A and B sugar into one quota. Traferibility of quotas among MSs	6 Reform should be reviewed in 2008 after many factors of indecision became more clear	

Source Doc n° 15445/04, 12672/04, 12672/04 ADD1 ADD2

From the tables emerges how the Commission proposed a reform which mixes the options presented in the early stages of the procedure. The combined quota and price cuts are coupled with direct payments to beet growers and the establishment of a restructuring fund sustaining the transformers.

MSs reacted to such a mixed solution differently. On one side the more competitive MSs in sugar production supported the proposal, even if some of them raised concerns about possible negative effects and applicability. Mediterranean MSs are on the contrary quite compact in opposing the intervention which is judged too early and unbalanced in its effects, especially on the distribution of sugar production over the EU.

Table 5 – MSs reactions to Commission Guidelines

MSs Reactions	MSs
In line with the reform proposed concerned about timing. Possible negative effect should be carefully considered	Germany, France, UK
Agree in broad principles but expressed concerns in the concrete applicability of some of the proposed mechanism	Austria, Hungary, Netherlands, Bulgaria, Romania, Belgium
In favour of a more radical reform , towards a fully liberalized sugar market	Denmark
Raised serious reservation . The proposed reform is too far reaching and unbalanced among MSs. Concentration of production could result from the reform in contrast with the Lisbon strategy.	Italy, Spain, Finland, Greece

Source Doc n° 15445/04, 12672/04, 12672/04 ADD1 ADD2

Reactions to specific instruments are summarized in tables 6 and 7. Due to the complexity of the positions expressed we isolated the reaction of the MSs to the direct payment for beet growers.

Table 6 - MSs Positions between the Commission proposals – Specific Issues.

Issue	Commission Proposal	MSs Position	Member States
Prices	Price reduction	Support	Germany, Denmark, France
	Abolition of intervention	Oppose	Italy, Netherland, Greece, Spain, UK, Ireland
	Reference price (400/450 €/t)		
	Minimum price for beet growers		
Quotas	Quota reduction	Support	Denmark, Germany
	A and B quota merged	Oppose	Poland, Portugal, Greece, Italy, Finland
	Increase of isoglucose quota		
Market Balance Tools	Declassification abolition	Support	Germany, France, UK
	Private Storage Mechanism	Oppose	Italy, Greece, Spain
	Quota Carry-Over		
Restructuring	Quota transferability	Support	France, Netherlands, Germany, UK
	Conversion scheme	Oppose	Italy, Greece, Spain

Source Doc n° 12672/04, 12672/04 ADD1 ADD2

Table 7 - MSs Positions between the Commission proposals – Direct Payments.

Commission Proposal		MSs position	MSs
Income Support to Beet Growers	Income compensation 60% Full decoupling	Lower level of Compensation	Denmark, Germany, Belgium
		Compensation up to 100% Support	Finland, France, Italy, Greece, Spain, Netherland Denmark, Germany, Belgium
Regionalization of the aid		Partial Coupling	Poland, Austria, Finland, Spain, Italy
		Support Oppose	Finland, Italy, Hungary None Explicitly

Source Doc n° 12672/04, 12672/04 ADD1 ADD2

MSs supporting the guidelines of the reform are also in favor of the relative instruments, with some exceptions. Is this the case of the Netherlands which supports the reform guideline but at the same time asks for an adjustments of the instruments proposed. Specifically it claims for price cut reduction and the increasing of the income percentage covered by the direct payments. The separation between northern and southern Countries applies also to the instruments. In such a scenario the Commission presents its official proposal.

The modifications that the Commission introduced to the first proposal are important if compared to the positions expressed by MSs during the discussion. In fact, the work done in this phase can be related to the necessity of gathering together the highest number of MSs in support of its view over the sugar reform. Specifically, the Commission abandoned one of the most opposed instruments, namely the compulsory quota cut, simultaneously has better specified the restructuring fund in terms of aid and funding and has welcomed the call for a softer price cut coming from a number of MSs.

Commission behavior can be explained through a strategic view. The Commission wants to prevent opposing MSs to form a blocking minority inside the Council, which will jeopardize the core elements of the reform together with its timing. Thus the Commission acted in the phase of the procedures it controls, the elaboration of the proposal, in order to understand MSs Position and find the widely accepted compromise possible which encompasses Commission concerns and preferences. In other words and related to Figure 2, the Commission acted in order to gather together Groups 2 and 3 of MSs which were not against the principles of the reform, reshaping the proposed instruments in order to build an “acceptable” base of negotiation given the weight of MSs position. In this way the Commission has exerted its active role not on the extreme MSs Positions but on the closest

MSs to its view building a solid base over which the Council can compose an agreement not too far from the proposal.

In the next section we will briefly remind the changes introduced to the proposal by the Presidency Compromise of the November 2005 and show how it respond essentially to the specific position of the “more status quo oriented” Countries not affecting the nature of the Commission proposal.

Presidency Compromise

Three measures have been added to the Commission proposal in the direction of the more conservative approach, but both of them are temporary and not affecting the structure of the sugar market for the future. First, beet growers payment has been added with a coupled component which covers the 30% if the income loss in addition to the 60% covered by the decoupled aid. This is a temporary measure lasting until 2014.

Second, in a transitory period of eight years and for the MSs who suffer a severe quota reduction is conceded the possibility to give national coupled aid to the sector. Those national measures have to be authorized by the European Union.

Third the complex of measures in favor of the stabilization of the EU sugar sector after the reform as the one in favor of the machinery suppliers and the full time refineries and increasing in the supplementary quota for some MS.

The point we want to highlight is that the reform passed practically unchanged in the Council, if we except some transitional adjustments outlined in the previous paragraph. This is related to the intense discussion conducted in the earlier phases which facilitated mutual understanding between the Commission and the Countries more in favor of a reform. At the same time, the Commission seemed to be reluctant to propose in the intermediate stage of the procedure measures which pose strong financial pressure on the EU budget, leaving in some way such a decision to the intergovernmental bargaining in the Council. The attention to such an aspect could have even more strengthened the Commission proposal and augmented the possibilities to see it accepted.

Conclusive Remarks

In relation to the starting questions of the research project and to the specific ones tackled in the paper we can derive some interesting insights from this analysis.

First of all the theoretical question we raised sounds very useful in clarifying the bargaining situation in which we developed our analysis, not only for general and political issues but also in the evaluation of the modification of technical instruments. From this point of view Putnam’s approach can serve as an important tool in the analytical and quantitative analysis which will develop in the second part of the research project.

Second the choice of sugar as case study to test our hypothesis about Commission role in the EU decision making proved to be really effective for the variety of issues involved, the complexity of certain aspects, the relevance of the theme for EU institution and the stakeholders relevance in the sector.

As it concerns the relation between the nature of the issues in discussion (technical or political) and the phase of the procedure in which they are tackled, we noticed that in each phase of the procedure all the issues are covered. The Commission proposal is considered as “unique piece of legislation” which contains many instruments, these instruments and/or their magnitude form the base for the intermediates and final compromises which characterize the development the EU decision making process.

The results of the analysis, even if with preliminary and incomplete, that in we showed that in the case of sugar the main activity of the Commission has been developed in the definition of the proposal. We can thus identify this step of the procedure as the main institutional channel inside consultation procedure in which the Commission can exert its active role in the political process which runs in parallel with the procedural and technical one.

Going more in dept in the sugar case study MSs can be divided into 3 main groups. Two of them, namely group 2 and 3 are in favor of an intervention, whilst group one raised serious reservation about the proposed reform. The first two groups’ positions are close to the Commission proposal and also the ones who get a reform which encompasses their preferences. Group one has to accept the reform and try to find some sort of compensation inside the Council. The Commission played a relevant role of coordination in the specific case accurately shaping the legislative proposal in order to gather around it the highest number of MSs. With this operation the Commission, in the case of sugar, succeeded in safeguarding the concern and views expressed in the early stage of the procedure.

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Appendix 1

List of consulted Documents

Document Ref.	Date	Type	Document Ref.	Date	Type
COM (2004) 499	14/07/2004	Commission Prop	10598/05	28/06/2005	Working Party
COM (2005) 263	22/06/2005	Commission Prop	10598/05 ADD1	28/06/2005	Working Party
DS 658/1/05	24/11/2005	Presidency Compr.	13782/05	28/10/2005	Working Party
Reg. CE 318/2006	20/02/2006	Council Reg.	13782/05 REV 1	03/11/2005	Working Party
Reg. CE 319/2006	20/02/2006	Council Reg.	13952/05	03/11/2005	Working Party
Reg. CE 320/2006	20/02/2006	Council Reg.	14178/05	24/11/2005	Press Release
Reg. CE 952/2006	27/06/2006	Council Reg.	14982/05	30/11/2005	Presidency Compr.
Reg. CE 967/2006	27/06/2006	Council Reg.	14982/05 ADD 1	30/11/2005	Presidency Compr.
Reg. CE 967/2006	27/06/2006	Council Reg.	15317/05	02/12/2005	Reg. Prop
Reg. CE 551/2007	22/05/2007	Council Reg.	15435/05	19/12/2005	Reg. Prop
Reg. CE 1264/2007	26/10/2007	Council Reg.	15978/05	22/12/2005	Working Party
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14327/03	07/11/2003	Working Party	PE-Cons 3673/05	13/01/2006	Working Party
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15631/03	05/12/2003	Working Party	PE-Cons 3673/06 R1	15/02/2006	Working Party
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