TRADE NEGOTIATIONS IN AGRICULTURE : A

COMPARATIVE STUDY OF THE U.S. & THE EC

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TRADE NEGOTIATIONS IN AGRICULTURE : A COMPARATIVE STUDY OF THE US & THE EC

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This study applies Destler's *institutional counterweights* to Putnam's *two-level analysis,* substituting Liberal Institutionalism and Realism for internationalism and isolationism, in a comparative case study of the roles played by the U.S. and the EC in multilateral trade negotiations in agriculture under the aegis of the General Agreement for Tariffs and Trade during the first half of the Uruguay Round. Using game theory as an analytical tool in the process, this present study demonstrates that a clear pattern emerges in which stages of cooperation and deadlock can be easily anticipated in games of Chicken and Prisoners' Dilemma in accordance with various but predictable levels of institutional influence.

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CHAPTER I

INTRODUCTION

The United States and the European Community (EC) are the two largest importers and exporters of agricultural commodities in the world. Though trade between these entities is relatively small, the markets in which they compete are huge with potential for conflict as each attempts to expand its market share. As negotiators for the more than 90 participants in the agricultural portion of the Uruguay Round of the General Agreements on Tariffs and Trade (GATT) talks sought to liberalize trade, conflict between the EC and the U.S. intensified to such an extent that negotiations came to a halt in December 1990. A trade war between the two countries threatened to derail the entire round of talks. At the core of the problem were provisions of the Community's Common Agricultural Policies (CAP)[1] and U.S. Congressional response to them, reflected in the U.S. 1985 farm bill. How GATT negotiations in agriculture were affected by the relationship of these two trading partners and why cooperation and deadlock occurred in a five year period between 1986 and 1991 are key questions this paper attempts to address.

This comparative study analyzes institutional factors that may have played a role in the formulating and promulgating of decisions by policy makers and negotiators; many of the decisions fundamentally affected trade relations between the U.S. and the EC.

Literature Review

Analyses of trade relations and conflict in the area of agriculture between the U.S. and the EC have been numerous in recent years. Articles have appeared in various scholarly journals since an impasse in long-term agricultural policy negotiations occurred in Brussels during the Uruguay Round of GATT discussions in December 1990. Even before this date numerous works are worth noting. Perhaps the most definitive is a book put together in 1989 by Stoekel, et al., Macro Economic Consequences of Farm Support Policies. In a chapter dedicated to the relationship between the EC and the U.S., the authors (Glenn, Rustrom, and Wigle) examine the game-theoretic aspects of an agricultural trade war between these two trading powers and attempt to evaluate its welfare costs.

The key actors in the Stoekel model are the EC and the U.S. Analyzing the nature of the Uruguay Round of negotiations in agriculture, the authors use a Nash Equilibrium to evaluate the payoffs from alternative policy choices to each of these players. The two strategies available to each actor include a quest for a percentage increase in existing protection on imports of agricultural goods and nondiscrimination. The payoffs to each nation are the changes in the welfare of the consumers of the nation as measured in terms of an equivalent variation in benchmark dollar terms. The authors conclude that the escalation of agricultural protectionism by the U.S. and the EC causes output of the agricultural sector as a whole to decline when protection is increased on all agricultural imports, thereby creating a situation in which the self-interest of any one actor cannot be defined independently of the possibility of strategic retaliation by another actor as a result of the decline.

Despite its theoretical nature and its focus on welfare costs rather than on actual negotiation constructs, this work reflects much of what has been written on the subject. For example, the actors who influence the negotiating process are limited to two. This occurs because the approach most authors take in developing their work is to stress domestic or international structures and processes rather than both. The context of most articles written on this subject favors a realistic perspective with little mention of the liberal goals associated with GATT negotiations. Finally, the payoffs most authors consider are usually social or economic in nature rather than political and/or institutional.

In his article, "Domestic & International Sources of Trade Policy: The Case of Agriculture in the EC and the U.S.," Vincent Mahler observes that the literature on international trade can be divided into approaches emphasizing economic factors, those stressing political factors, and those focusing on the role of the cognitive context within which policy is made. Each of these three approaches can then be subdivided into approaches stressing domestic or international structures and processes (Mahler, 1991). Mahler combines all of these approaches into a single explanation for why differences in trade policies exist between the U.S. and the EC. He concludes that market forces, institutions, ideas and the individuals who conceive and implement them, the international system, and domestic, social and political interests are all factors in the complex relations between the two actors.

Unfortunately, Mahler's work is more a descriptive analysis of aspects associated with the conflict rather than an effective explanation of their actual occurrence. While delineating three periods between 1984 and 1990 as marked by particularly intense conflict, he only makes passing reference to the conglomeration of factors which he attributes to the conflict. There are too many factors which he never integrates very well. Though briefly acknowledging the role of institutions, he, as with most writers on this subject, writes of trade policies between only two actors, the U.S. and the EC, which explains why Mahler mentions the U.S. Congress' influence on agricultural trade policy only once.

In an article limited to the EC, "The Effects of the CAP of the EC: A Survey of the Literature," Demekas *et al.* write that there are two related dimensions of the welfare effects of the CAP, domestic and international. The most intriguing aspect of their analysis of the institutions at the domestic level is their study of the interplay between various Presidencies of the Council of European Communities between 1981 and 1992 relative to the Luxembourg Compromise and Article 43 of the Single European Act (SEA). According to the authors, the veto power and majority voting, are the tools most responsible for the acceptance or rejection of policies designed to reform the CAP. Such an interplay between these tools and the rotating Presidency is visible in the Council of Ministers as well. Likewise, on a domestic level, just as the Council can thwart Commission recommendations by procedural intrigue, so the U.S. Congress can affect proposed policies of the President. In his article, "Congress, Foreign Policy, and the New Institutionalism," James Lindsay observes that procedural changes in the U.S. meet only partial success because of the opportunity for Executive Branch opposition.

These two works together are important because until majority voting was institutionalized in the Council in 1987, the EC Commission, unlike the Executive

Branch of government in the U.S., could ill afford to oppose Council intrusion in trade matters. This relationship between the two executive and legislative branches is lost in most cross-comparisons of the U.S. and the EC, particularly in studies concerned with agricultural trade policy. Consequently, Dixon and Moon's observation that "trade patterns can be accounted for by factors that apply to aggregations of domestic economic actors" becomes more salient in light of the relationship of the U.S. and the EC in GATT negotiations. This relationship will become more apparent in subsequent chapters of this paper (Dixon & Moon, 1993).

The Purpose and Plan

Most articles pertaining to trade in agriculture between the EC and the U.S. are primarily descriptive or predictive, and appear deficient in substantive theory. For example, no explanation is given for how the relationship between institutional factors, in both a domestic and international context, affects the success or failure of trade negotiations. To offer such an explanation, and to fill the void in the literature in this field, I have chosen to do a case study that employs both Destler's *institutional counterweights* and Putnam's *two-level analysis*. This necessarily entails the involvement of four actors, as opposed to what is traditionally a two-actor assessment of trade negotiations in agriculture.

Putnam proposes that international negotiations can be perceived as two-level games. One game level is at the national level and another is played on an international level. Negotiations on each level are then affected by the relative size of "isolationist" and "internationalist" forces. However, in place of these forces I substitute the ideas implied by Realism and Institutional Liberalism, respectively. This is done in accordance with Destler's belief that devices for diverting and managing trade restrictive pressures, common goals of isolationist forces, have recently evolved in the U.S. Among these devices are ideas and institutions. The ideas are those associated with liberal, free-trade principles most espoused by members of an Executive Branch inclined to favor the expansion of international trade. Extending Destler's concept of counterweights to the EC, and subsequently offering my own explanation for its evolution therein, I am able to expand the depth of analysis to include not simply the EC and the U.S. proper, but also two actors within each of these two entities who represent competing views of the proper requirements for a successful round of negotiations.

Actors at the national level who are primarily associated with viewing trade issues through the prism of precepts based on Realism are the Congress and the Council of Ministers for the U.S. and the EC respectively. Liberal Institutionalists, actors at the international level, are most associated with the Executive Branch of government. In the EC the Executive Branch is the European Commission and in the U.S. it is the Administration of the Presidency.

It is my argument that trade negotiators, appendages of the Executive Branch, have an *active* power of influence in negotiations. When devoid of outside interference, two negotiators will cooperate in order to formulate proposals conducive to free-trade principles. Exhibiting a *latent* power of influence over trade negotiations are the Council of Ministers and Congress. Their power is dictated by predictable periods of involvement in relevant issues, such as a U.S. farm bill that must be renewed every four or five years and an annual review of CAP prices. It is during such periods that these two actors are most able to affect trade negotiations. Their influence subsequently wanes shortly after they have confronted whatever issues they are required by law to legislate.

Based upon this argument, I identify five stages relevant to the Uruguay Round of GATT negotiations in agriculture between the U.S. and the EC in which the success of the negotiations can be attributed to differing levels of influence of the four actors.

The first stage is one in which the power of Congress and the Council of Ministers to influence trade issues is at its most formidable. This stage is usually characterized as involving a trade war between the U.S. and the EC. Questions concerning EC enlargement and the 1985 U.S. farm bill allowed both of these national level actors to exert extensive influence on issues pertinent to agriculture. The period of analysis in this first stage extends from March 1985 to September 1986. March 1985 is chosen as the beginning point because it was then that the "Leutwiler Report" was first published. This report, which was GATT sponsored, was the first official recommendation that agriculture be included in any new round of negotiations. The 22nd of September 1986, which is when the eighth round of GATT negotiation began, marks both the end of the first stage and the beginning of the next.

The second stage is one in which Congressional influence has subsided while the Council of Minister's has not. Our first look at the actual negotiations occur in this stage. As a result of the Administration's rising level of influence in contrast to the Commission's lack of influence, there is neither cooperation nor overt hostilities. With a lame duck presidency in the U.S., the Omnibus Trade bill, enacted into law in the summer of 1988, assumed less of an impact than might normally have been the case. This prevented Congress from playing as extensive a role as it did during formulation of the 1985 farm bill. The Omnibus Trade bill extended "fast-track" approval to the President, which allowed the Administration to negotiate without the need for Congressional consent throughout each step of the process. This stage ends with the scheduled conclusion of the Montreal Mid-Term Review on 5-9 December 1988.

The third stage is one in which the Commission and the Administration are least influenced by the Council of Ministers and Congress. Consequently, this stage is characterized by cooperation and the introduction of negotiation proposals that aim to liberalize world trade in agriculture. Although the Council of Farm Ministers enacted reform legislation on 25 April 1988, which would decrease their own influence in the review of CAP prices, this did not fully go into effect until the following year. Further, institutional changes which increased the Commission's power to influence trade negotiations in agriculture, such as the Council's affirmation of the majority vote, occurred in the second stage, but were not fully accepted into practice until the subsequent third stage. As a result, a Mid-Term Review was approved in Geneva in April 1989. Long-term proposals were submitted by the U.S. on 25 October 1989 and by the EC on 19 December 1989. After three years of negotiations, this third stage marked the first instance of progress for negotiators in their struggle to liberalize trade in agriculture.

The fourth stage, which begins with the December 1989 long-term EC proposal, is marked by the rising influence of the U.S. Congress. Debate on the 1990

U.S. farm bill began in earnest in December 1989, and the bill was enacted into law in May 1990. Congress opposed the EC proposal and threatened to construct a farm bill that would require the Administration to implement retaliatory measures if adequate agreements were not reached according to specific dates set by Congress. These threats did in fact find their way into the farm bill. In its 8 November 1990 counter-proposal to the U.S. proposal of 15 October 1990, the EC, in protest, refused to make any substantive changes to its December 1989 proposal. However, October does not mark the end of this stage because at the 3-7 December 1990 Ministerial meeting in Brussels, during which the Uruguay Round was scheduled to conclude, several EC attempts were made to negotiate an end to the growing hostilities. These were proven to be unsuccessful when U.S. delegates eventually walked out of the negotiations in protest.

The final stage of analysis arrives full circle from the first. This stage, though brief in comparison, is also characterized as one in which a trade war dominates the relationship between the EC and the U.S. EC Commissioners believed that by proposing a 100 percent reduction in subsidies, the U.S. was acting unrealistic. However, they were willing to stay in the game in order to work out a compromise. It was at the December 1990 Intergovernmental Conference on Political Union in Rome (IC) that the Council of Ministers made it known they could no longer accept compromise with an unyielding adversary. During this conference, the Council of Ministers sought to reclaim some of their diminished powers at the expense of the Commission, leading to what is now known as the Maastricht Treaty. As the power of the Executive Branch in the EC appeared to decline during this stage, so too could the same be said of the Executive Branch in the U.S. It was also during this stage that Congressional influence increased in the U.S. as a result of the expiration of fast track approval for the Administration on 31 May 1991. For various reasons these institutions rebounded in their ability to influence the direction future trade negotiations were to take. As a result, I bring the final stage to a close in May 1991 when negotiations in agricultural export subsidies resumed in full.

Significance Of This Study

In an article pertaining to trade negotiations between the U.S. and Canada, Harold Koh identifies five stages (regimes) of Congressional-Executive relations in trade prior to 1988, each associated with a particular trade statute (Koh, 87-116). During the successive stages, the pendulum of power over trade policymaking swung first from the Congress to the President, and then back to the Congress again. In a similar article on the subject, Leslie Delagran observes that while Congress provides periodic reminders to the Administration of its prerogatives in the development of trade policy and the implementation of trade agreements, the "conflict is only beginning" in Canada (Delagran, 1992). Both of these articles introduce a fluctuating domestic variable, the Legislative Branch, which affects negotiations in trade. No similar articles can be found regarding trade negotiations between the U.S. and the EC.

The significance of this paper is that it combines the domestic (national) variable with the international to explain the success and failures of negotiation in agricultural trade between the EC and the U.S. This is done by extending the number of actors to include national players. By borrowing from Koh the idea of stages in the relationship between the Executive and Legislative Branches of government, identifying such stages in the U.S. and the EC, and then transposing those stages onto the arena of GATT negotiations, this paper is able to explain why agricultural policy was or was not able to progress toward free trade principles. No case study on the subject has ever been so thoroughly grounded in the theoretical constructs necessary for the inclusion of more than two actors. This is also one of the first studies to combine Putnam's *two-level analysis* with Destler's *counterweights*. This was done to give further credence to the roles of the four players.

Limits and Procedure

A key limitation inherent in this subject is the secrecy of negotiations and discussions. When public documents are available they are often colored with the ideology of the player for the benefit of a domestic audience. While this might distort the credibility of the source, and thus preclude its use in any scholarly work, the same cannot be said of this paper, which distinguishes each of the four players as holding one of two ideologies. These ideologies influence the negotiations, and this cannot be ignored. For this reason, government documents are included in this study. These include transcripts from United States Department of Agriculture (USDA) testimony before Congress, as well as from Commission and Council hearings and conferences. Other sources of information are recent articles from scholarly journals and GATT reports and bulletins.

The comparative case study approach used in this study is also a point of some contention. This approach has been cited by a number of authors as having various shortcomings. For example, Arend Lijphart argues that case studies are "intensive but uncontrolled examinations of single cases that cannot directly result in empirical generalizations and cannot even be used to test hypotheses" (Lijphart, 1975). However, Lijphart also recognizes that rather than imitating experimental control, a more promising use of the comparative case study approach is to "extend the investigator's experience, to make him aware of more possibilities and social capacities, and thus to help his imagination of cause-seeking, effect-measuring, rational models, and other useful functions" (Lijphart, 1975).

In "Case Studies and Comparative Analysis," a section from his book Politics Within Nations, Joseph LaPalombara lists several distinct advantages in the case study approach to comparative politics. Included in his list are the opportunity case studies provide (1) to locate concrete examples of hypothesized relationships (2) to disprove strong generalizations, thus compelling the qualification or rejection of a relationship (3) to inhibit hyperabstraction (Case studies are sobering correctives; they serve to underscore how much more richly variegated, variable, and complex is the real world of politics.) (4) to detect relationships that are initially overlooked or not even suspected to exist, and (5) case studies over time help prove theories in the strict sense of the term (Propositions, hypothesis, and theories must, if we are to accord them credence, survive the proving experiences of situations in the real world.) (LaPalombara, 1974).

For all of these reasons, despite its shortcomings, I have chosen to utilize the comparative case study approach. In trying to demonstrate that those institutions most interested in domestic politics have within trade politics in agriculture an influence that is not constant, but instead rises and falls according to an occasional legislative requirement that necessitates debate over agricultural trade issues, a case study of the relationship between the EC and the U.S. during the Uruguay Round of negotiations seems most appropriate.

If the independent and dependent variables do not change during a period of observation, and only one basic observation is being made, then a case study can add to theory and offer generalizations grounded in responsible research. The independent variables in my own study are held constant by an array of theoretical factors, including institutional and ideological. The dependent variables are the four actors representing both the U.S. and the EC. All of these variables are spelled out in Chapter II of this study. Chapter III then brings these variables together in one coherent theory.

In abstract form, the theory entails that the opportunity of national political institutions to influence trade policy in agriculture waxes and wanes as a result of periodic legislative requirements. When this opportunity decreases in both the U.S. and the EC, then cooperation in trade negotiations ensues. When the opportunity to influence trade policy increases congruently, then a trade war is a likely result. When, however, such an opportunity changes for one actor but not for the other, then trade negotiations simply linger with no real progress or conflict.

Chapter IV is the case study. It is in this forth chapter that the utilization and applicability of the propositions and theory presented in the third chapter are demonstrated. Evidence in support of the study is culled from situations in which each of the four actors politically influenced issues affecting the GATT negotiations in agriculture. Chapter V is an assessment and summary of the theoretical underpinnings of the case under investigation in this thesis, and presents an intriguing observation of the outcome of the Uruguay Round relative to the negotiations outlined in this study.

CHAPTER II

FACTORS INFLUENCING THE STUDY

Institutional Counterweights

In American Trade Politics, his most recent work on American foreign policy making, I.M. Destler examines the complex process that the U.S. has created for dealing with international trade. He first notes that Congress is a decentralized, undisciplined institution, particularly susceptible to pressure from organized interests. So if it "does what comes naturally," if the politics of benefit seeking and log-rolling go unimpeded, the result will be a high level of trade barriers to the benefit of certain groups and the detriment of the nation as a whole. Congress has a Constitutional responsibility for regulating "commerce with foreign nations." However, for a politician who must respond to concentrated interests, as former Deputy Special Representative for Trade Negotiations William Pearce has pointed out, a vote for lowering trade barriers is most often an "unnatural act" (Destler, 1992). If he is to vote this way, and if Congress, more generally, is to divert or turn back the pressures for trade protection, Destler writes that counterweights have to be built into the policy-making system.

These counterweights can be ideas, such as the view that liberal trade promotes peace among nations. They can be processes - means of setting tariffs that insulate Congress from direct responsibility. They can also be institutions - an Executive

Branch agency, such as the U.S. Department of Agriculture (USDA), that measures its success in terms of how well it copes with trade restrictive pressures and thus allows international commerce to flourish. For Destler, the main story in the politics of American trade during the last 50 years has been the development of just such antiprotectionist counterweights, devices for diverting and managing trade restrictive pressures.

Article I, Section 8 of the U.S. Constitution grants Congress the power to raise revenue and regulate commerce with foreign nations. Congress delegates this power to the President by enacting laws authorizing him to negotiate, conclude, and implement international trade agreements, especially those involving tariff modifications. Because its commerce power has been held to be plenary (*Buttfield* v. *Stranahan*, 192 U.S. 470, 493 [1904]), Congress may limit or define any such delegation as it sees fit (Jagelski, 1987). And certainly Congress has seen fit with every opportunity, including the Omnibus Trade and Competitiveness Act of 1988, an Act that played a highly significant role in Trade negotiations during the Uruguay Round.[2]

Without a doubt, Congress is more now than ever insulated from the responsibility associated with the setting of tariffs and other trade issues. Congress delegated more responsibility to the Executive Branch in the 1930s, beginning with the Reciprocal Trade Agreements Act of 1934. This Act authorized the President to negotiate and implement pacts with other nations in which each agreed to cut tariffs on items of interest to the other. Subsequently, the Administration began seeking the implementation of free trade policies, primarily as a result of post-WWII economic conditions.[3] Since then, a continuity across administrations has developed. Presidents, regardless of party, champion liberal trade for both foreign and domestic policy reasons (Destler, 1992). Consequently, the antiprotectionist counterweight of liberal, free trade ideas has been incorporated into the institution of the Executive Office.

Liberal Institutionalism and Realism

Realists contend that international anarchy is the principle force conditioning the external preferences and actions of states. If states fail to protect their interests or pursue objectives beyond their means, the international environment will severely penalize them. Anarchy is the underlying political-structural condition in the world because the composition of states in the international political system lacks centralized authority. In an attempt to pursue relative achievements of gains, states often resort to cheating. Anarchy inhibits the willingness of states to work together because the threat of a loss of autonomy is always a possible outcome in any anarchic system. According to Robert Keohane, states are acutely sensitive to any erosion in their relative capabilities. They are driven by an interest in survival and independence, and they want to know what the impact will be of virtually any relationship on their relative defensive capabilities (Keohane, 1984).

For realists, the fundamental goal of states is to prevent others from achieving advances in their relative capabilities. A state will decline to join, will leave, or will sharply limit its commitment to a cooperative arrangement if it believes that gaps in relative gains will substantially favor partners. States seek to ensure that partners comply with their promises and that their collaborative arrangements produce "balanced" or "equitable" achievements of gains, a distribution of gains that roughly maintains precooperation balances of capabilities.

Consequently, one important view held by Realists is that overproduction in agriculture is inherent in the operation of the market in this sector and that government intervention to control supply is thus crucial. On the whole, this has been the prevailing view in the EC, although the Community has recently faced the difficult prospect of shifting from reliance on stockpiling or export subsidies to reduction of output. It is also the view of many in the U.S. farm community, particularly on the part of smaller producers (Mahler, 1991). Further, in most parts of the EC the ideal of free trade is less entrenched. Part of the reason for this is the time-honored conception that national food self-sufficiency is an essential component of national security (Mahler, 1991).

Liberals contend that anarchy is not an absolute condition of the international environment. They acknowledge that as a result of the rapid growth of international economic interdependence since the end of the second world war, there are now more points of potential friction between states in the international arena. And, while interdependence leads democratic governments to expand state activity in order to protect their citizens from fluctuations in the world economy, it does not necessarily lead to discord unless such states seek to force the costs of adjustments onto foreigners. Increased interdependence and governmental intervention create opportunities for policy conflict. If states fail to take advantage of these opportunities, then cooperation, not anarchy, persists.

According to Joseph Grieco, institutions affect the patterns of cooperation that emerge; they reduce the costs of legitimate transactions, while increasing the costs of illegitimate ones (Grieco, 1990). Their most important function is to facilitate negotiations leading to mutually beneficial agreements among states. For reasons of reputation, fear of retaliation, and concern about the effects of precedents, states typically follow the rules and principles of international regimes. States join and create regimes because they provide rules and decision-making procedures that shape and constrain state policies to promote common or compatible ends in a particular issue area, thus providing a means to evaluate and narrow gaps in relative advantages. The rules of the regime provide standards of behavior by which states may legitimize their own actions or challenge those of their partners. They also inform and guide states in resolving disputes with one another. For liberals, acts of cooperation are accounted for on the grounds that mutual interests are sufficient to enable states to overcome their suspicions of one another. Therefore, international regimes which help to facilitate cooperation, such as the GATT, can be organizations of high utility.

Congress and the Executive Branch

No other organization so consistently adheres to a Realist ideology than the U.S. Congress. "Many in Congress recognize that food and fiber policy is written by individual nations with the health of their rural sector and their national food security as their primary concerns," spoke Senator David Boren, Chairman of the sub-Committee on Domestic and Foreign Marketing and Product Promotion of the Committee on Agriculture, Nutrition and Forestry. Aside, he added, "the European nations are certainly expected to follow that priority" (Congressional Hearing, 12 April 1989). For this reason, Congressmen are very suspicious of liberalization, especially if it involves a slow game of tit-for-tat, or other such bargaining procedures.

In the initiation of a game of tit-for-tat, one of the players begins by cooperating and then retaliates once for each defection by the other player (Keohane, 1984). During the Uruguay Round of multilateral trade negotiations, it was usually the Executive Branch of the U.S. that sought cooperation in an effort to initiate a tit-fot-tat game of Prisoners' Dilemma in the area of agriculture. One of the decisions encompassed within the Geneva Mid-Term Review Agreement reads as follows: "Credit will be given for measures implemented since the Punta del Este Declaration which contribute positively to the reform program." At this half way point, with 20 months of negotiating remaining before the planned conclusion of the Uruguay Round, U.S. negotiators decided to take the first step. This move worried Congress very much; consequently, it would later serve as a reference point when the 1990 farm bill was framed. Charles O'Mara, an Assistant Administrator for the Foreign Agricultural Service, testified before the Senate's subcommittee on domestic and foreign marketing and product promotion. When he tried to explain the negotiating move, the Senators appeared concerned and alarmed. With a Realist's perspective, Senator Boren summed up the situation and placed it in the following context:

> "...if we take actions that would be viewed as reducing subsidy programs on our own, even if the language states that we will be given credit for those, in terms of the negotiations, it certainly still has a psychological affect on the other side if they were to decide to do nothing of a downward adjustment of their programs. They can simply sit back and say, fine, we give you credit for those, you decided to do those for your own reasons, but we don't intend to do anything. And, having already done it, we would have certainly gotten nothing in return from them, even though on the books, in terms of in the future, if they decided to do something, we would sort of say, well, we already have an offsetting credit" (Congressional Hearing, 12 April 1989).

Senator Boren continued by suggesting that this move "might slow the process in terms of their [European Community] willingness to yield to us, or to make concessions of their own." While Senator Boren only questioned the move, Senator Baucus outright opposed it. "It is my experience, in dealing with international trade, that no country operates altruistically - no country - and, therefore, we should not unilaterally take the first step," he said.

In every Congressional hearing on agriculture between 1985 and 1991, not one Congressman has appeared eager to embrace a move towards unconditional free trade. When the Administration has stepped forward to move trade negotiations in such a direction, Administration officials and others have often been ridiculed or rebuffed. Suzanne Early, Assistant U.S. Trade Representative for Agriculture, tried to clarify a Congressman's question by stating, "I think we are talking about: What do we do when we get to the zero subsidy area ?," at which point, Congressman Roberts interjected, "And a balanced budget and world peace" (Hearing, 28 February 1991). He was certainly being facetious with his remark and by so doing, indicated his opposition to Liberal Institutionalist doctrine. Similarly, Robert Paarlberg, professor of political science at Wellesley College, suggested that not only should Congress move toward "more liberal domestic agricultural policies," but a unilateral farm policy should be implemented in which the U.S. goes first on liberalization. Senator Borschwitz responded, "you are going to have to bring some more optimism here to the Committee if you are going to be invited back" (Hearing, 22 July 1986). Professor Paarlberg was just a little too critical of the Congressional approach to agricultural trade, and his suggestion was not in keeping with Congressional traditions.

The primary duty of the Congressional committees responsible for agriculture occurs only every four or five years, when they consider renewal of legislation authorizing federal farm price supports and related programs. In between, the committees consider a variety of legislation responding to changes in the agricultural economy, from help for farmers hit by droughts or floods to emergency assistance for the banks that provide operating loans to farmers. Overseeing this work are the House Agriculture Committee and the Senate Agriculture Committee, known formally as the Agriculture, Nutrition, and Forestry Committee. Members of these committees mostly represent heavily rural areas, and are the leading advocates in the House and the Senate for the interests of farmers. Most of the members of these committees come from Southern and Midwestern states, where issues involving farm interests are a prime concern. Some of the members are farmers themselves or come from districts where farming remains an important part of the local economy. Few members come from big cities or industrial regions. Each member is most concerned with protecting the interests of the crops most important to his or her own constituents (CQRRE, 1994). This, of course, may explain their proclivity toward trade restrictions and protection.

Because farm policy is written in a series of acts that span 4 or 5 years at a time, Congressmen are often not a consistent force in agricultural trade negotiations. They are often distracted by changing priorities and political considerations within their districts. For these reasons I chose to label their influence as latent. Typically, their effect is more a psychological one which is most potent about six months prior to the passage of a farm bill, as a result of the intense nature of Congressional rhetoric, and about six months after the passage of a farm bill, as a result of the uncertainty associated with the manner in which it will be applied. Usually the Administration implements only a small portion of any one farm bill, which will be discussed shortly. Coupled with this infrequent involvement in agricultural trade issues is the fact that the interests being served when a farm bill is constructed are not of an international or national nature, but are more likely to involve considerations of local farmers and agricultural commodity organizations in the districts of individual Congressional members. This was recognized by Allan Mendelowitz, Director of International Trade, Energy, and Finance Issues for the National Security and International Affairs Division of the U.S. General Accounting Office, when he said to House members of the sub-Committee on Department Operations, Research, and Foreign Agriculture, "...you are doing what you are suppose to do, and that is, you are looking out for your constituents and taking into consideration that, even if the country as a whole gains, you have constituents whose interests deservedly need to be considered and looked after" (Congressional Hearing, 28 February 1991). In other words, *even if the country gains* from the liberalization of agricultural trade, the Administration's efforts at GATT negotiations could be rejected by members of Congress simply because their own constituents appear to gain less. Mr. Mendelowitz obviously recognized this key point as he addressed the Sub-Committee.

As for the Executive Branch, the USDA and the United States Trade Representative (USTR) are two offices under the authority and guidance of the President that deserve credit for their role in attempting to bring about more liberalized trade. It is fitting then that Carla Hills, Trade Ambassador for the U.S., warned

Congress of the consequence of increased American protectionism. Responding to a question by Senator McConnell about the critical nature of trade, Ambassador Hills said, "liberalized trade is critical to our continued progress and our position of world economic leadership. It is also another step along the road to a more global economy. Although it would be difficult to completely erase the progress that we have made in the past 60 years, it is possible to foresee a world in which past gains are reversed and world economic growth stagnates because of increased trade protectionism" (Hearing, 8 May 1991). Certainly this view is consistent with Liberal ideology and Liberal Institutionalists who have fought so hard to make the GATT system viable.

In contrast to Realism, another facet of Liberalism that differentiates the USDA from Congress, for example, is that for the goal of free trade to be reified, cooperation is necessary. This is not the case for protectionism. For cooperation to occur, concessions must usually be made. In a tit-for-tat game of Prisoners' Dilemma, a time lag between reciprocal concessions could exist that, to the eyes of a Realist, appears immeasurable and unwarranted. But for a Liberal, the *time is on our side* concept is held as long as negotiations are heading in the right direction (i.e. toward free trade), and any and all time lags are proven to be justifiable. For example, in the long-term policy formulation phase of GATT negotiations on agriculture, if the EC had decided at the political level to reform its CAP, it still did not have time to lay the domestic groundwork for major changes, which would have had to occur by December 1990. U.S. negotiators recognized the inability of the EC to respond as they would have originally preferred them to have, so they sought to defer the demand to a later date. Consequently, this is one of two prominent reasons why U.S. negotiators lowered proposal standards in subsequent negotiations.

Another reason is that it is common practice in bargaining situations to inflate one's position initially in order to concede less in the final outcome. While a movement toward free trade is a desired goal, change has political consequences which most Administrations seek to control or limit in such a way that a small, incremental step forward toward an objective of free trade is made without jeopardizing social unrest or giving vent to the wrath of Congress.

While this last point cannot be substantiated empirically, examples of its occurrence abound in GATT proceedings. An illustration of this concerns three separate U.S. negotiating proposals introduced between 1986 and 1990. The United States' initial position in the negotiations would have required the elimination of all market-distorting domestic and export subsidies and would have expanded market access through the conversion of quotas to tariffs (known as tariffication). Later, the U.S. modified its position to support a 75 percent reduction in domestic subsidies and a 90 percent reduction in export subsidies and import tariffs. In December 1990, in Brussels, U.S. negotiators once again modified their position, expressing strong interest in a proposal, known as the Hellstrom 30-30-30 paper, requiring reductions of 30 percent in export subsidies and internal supports and minimum guaranteed market access. Consequently, a spokesperson for the USTR said, in reference to the 1990 impasse, "we believe that EC officials did not truly expect the U.S. to hold firm for a substantial agreement in the agricultural negotiations. Past capitulations by the U.S. in agricultural trade negotiations probably fostered doubts in the Community about U.S. resolve." In fact, U.S. negotiations continued to capitulate until they came to the preinflationary target level of 30 percent, at which point the U.S. refused to go any lower.

Putnam's Two-Level Analysis

In a much quoted article from the International Organization in the Summer of 1988, Robert Putnam wrote that the politics of many international negotiations can usefully be conceived as a two-level game. At the national level, domestic groups pursue their interests by pressuring the government to adopt favorable policies, and politicians seek power by constructing coalitions among those groups. At the international level, national governments seek to maximize their own ability to satisfy domestic pressures, while minimizing the adverse consequences of foreign developments (Putnam, 1988).

The unusual complexity of this two-level game is that moves that are rational for a player at one level (such as raising tariff rates) may be impolitic for that same player at the other level. This, of course, delineates further the institutional dichotomy inherent in Destler's counterweight. According to Putnam, there are powerful incentives for consistency between the two games. Players will tolerate some differences in rhetoric between the two games, but in the end either tariff rates will or will not rise.

Based on a game whereby one level involves the bargaining between the negotiators that leads to a tentative agreement and another level that involves separate discussions within each group of constituents about whether to ratify the agreement, Putnam defines the "win-set" for a given constituency in the later level as the set of all possible agreements in the former level that would gain the necessary majority among the constituents, when simply voted up or down. Thus it follows that the larger the win-set, the more likely an agreement will be reached (Putnam, 1988).

The reason why the win-set size is important is because the relative size of the respective win-sets will affect the distribution of the joint gains from the international bargain. The larger the perceived win-set of a negotiator, the more he can be "pushed around" by the other negotiators. Conversely, a small domestic win-set can be a bargaining advantage: "I'd like to accept your proposal, but I could never get it accepted at home" (Putnam, 1988). The difficulties of winning Congressional ratification are often exploited by American negotiators. However, precisely to forestall such tactics, opponents may demand that a negotiator ensure himself "negotiating room" before opening negotiations, which is what happened to the U.S. in 1988 as the GATT negotiations got under way relative to the passage of fast-track approval by Congress. According to Putnam, the size of the win-set, and thus the negotiating room of the negotiator, depends on the relative size of the "isolationist" forces, who oppose international cooperation in general, and the "internationalists," who offer all-purpose support for international agreements (Putnam, 1988).

The Players for the United States

In accordance with Putnam's analysis, one level in a game involves players at the national level who seek the potential power manifested within interest groups who, in return, desire the adoption of favorable policies. Players on this level typically oppose international practices that may confine their ability to push forward protectionist policies that will win them the support for which they endeavor. In contrast, the second level involves players who are more concerned with coalition building on an international scale. These players attempt to foster international cooperation in order to facilitate more favorable economic conditions at home. As so described, these roles could most certainly be played by the Congressional and the Executive Branches of the U.S. government, respectively. Even contemporary scholars note that the common wisdom in the area of U.S. trade policy is that the Executive, representing a national constituency, will favor free trade while the legislature will be more amenable to the desires of narrower interests. In no area of trade is this more noticeable than in agriculture (Lenway, 1985).

Article II of the U.S. Constitution grants the President the general authority to conduct foreign relations. Two aspects of this power are relevant to the President's trade negotiating authority. First, as foreign relations necessarily include foreign commerce, the President is able to claim some implied constitutional authority in the foreign trade area separate from the power that flows expressly to Congress (*Chicago & Southern Air Lines, Inc.* v. *Waterman Steamship Corp.*, 333 U.S. 103 [1949]). Second, the President and the Executive Branch are exclusively charged with treaty negotiation, an activity that the Supreme Court has long recognized to be integral to the successful use of the foreign affairs power (*United States* v. *Curtiss-Wright*, 299 U.S. 304 [1939]) (Jagelski, 1987).

However, this power to negotiate is usually contingent on the fact that Congress has the sole Constitutional right to ratify a trade treaty or not. For this reason, the President has of recent years sought Congressional approval to negotiate in order to ensure its cooperation in the ratification process. This explains why Congress became involved in the GATT multilateral trade negotiations. Its involvement was apparent in three stages; (1) early in the round, to decide what, if any, authority to delegate to the President for negotiating agreements; (2) during the round, to consult with the Administration on the negotiations; and (3) after agreements are reached, to decide whether to approve the agreements and implement legislation. Consequently, Congress approved negotiating authority for the President under the Omnibus Trade and Competitiveness Act of 1988 (P.L. 100-418). Relative to agriculture, the 1988 Trade Act authorizes the President to implement tariff cuts up to 50 percent for tariffs of more than five percent *ad valorem*, or up to 100 percent for tariffs of five percent *ad valorem* or less, as long as tariff agreements are reached by May 31, 1993. The Act authorizes the President to negotiate non-tariff agreements with a pledge of fast track consideration if nontariff agreements are reached by May 31, 1991. The fast-track approval procedure is designed to ensure that as long as the Administration has consulted adequately with Congress before and during negotiations and has reached an agreement consistent with congressional directives, then Congress quickly and without amendment will consider and vote on the agreement and implement legislation as submitted by the administration. Under the 1988 Act the Congress may withdraw fast-track authority if both Houses pass disapproval resolutions because the President did not consult adequately (Sek, 1988). Most pertinent to agricultural negotiations are the Senate and House agriculture committees, representing farm interests in the U.S. Congress, and the USDA, representing the President in actual negotiations for the U.S.

Can an Appropriate Comparison Be Made Between the Political Institutions in the U.S. and Those in the EC ?

The pertinence of this question lies in the "language of comparison" in Przeworski and Teune's Logic of Comparative Social Inquiry, whereby the comparability of two items depends on whether their properties can be expressed in a standard language (Przeworski & Teune, 1970). As is shown here and elsewhere in this paper, the comparison undertaken in this study does, in fact, meet such a requirement.

Thus, while the U.S. can rightly be called a federation of states, a similar claim made of the EC is no longer considered far from the truth if erroneous at all, although it was once derided by scholars in the field as an incorrect assessment. In fact, with the exception of Keohane, every source cited in the bibliography section of this paper can be said to have equated the structure of government within the EC with federalism.

In an article located in the University of North Texas' own publication, Publius, Alberta Sbragia wrote last summer that the federal principle is particularly well suited to analyzing the Community because the territorial dimension is so prominent in both the literature on federalism and within the Community itself. Territory is central to federal arrangements; representation organized along territorial lines is often key to the entire policy-making process (Sbragia, 1993). The Community has a policy-making process, which while unique, is recognizable to students of comparative federalism. If analyzed in a stylized fashion, federal systems balance territorial and nonterritorial claims.[4] These systems are essentially a balancing act. That is, they address claims from electorates that have regionally distinctive interests and/or the claims from the governments of subnational units, on the one hand, and the claims made by functional interest groups such as those representing farmers on the other. In a federal system, territorial claims can be both asserted and overridden. By contrast, a traditional international organization such as the United Nations does not need to concern itself with working out an appropriate balance between territorial and functional politics. National governments, representing their own territory, make all the claims. The claims of territory are supreme because they cannot be overridden. The EC is distinctive in that it tries to balance territorial and nonterritorial claims. It is that balance which renders it recognizable to students of federalism and problematic to students of international relations (Sbragia, 1993). The Treaty of Maastricht has shifted the balance between territorial and nonterritorial politics in favor of the latter (Sbragia, 1993). The move from unanimity to qualified majority voting was seen as a major step in the integrative process and a softening of the territorial dimension. National governments could now be outvoted, with the result that decision-making accelerated considerably as governments realized that obstructive behavior would simply isolate them from the bargaining and thereby reduce their influence even further.

Just as the sovereignty of a central government befitting a federation is located within the confines of the Executive and Congressional Branches of government in the U.S., so too does it exist in the EC in the guise of the European Commission and the Council of Ministers.

The Players for the EC

Much like the Executive Branch in the U.S., it is the College of Commissioners whose administrative responsibilities include the everyday operation of the institutions of government, as well as the negotiating of treaties on behalf of the Community in multilateral trade negotiations. The Commission is composed of 17 members appointed by national governments, who must take an oath of allegiance to the Community. Its responsibilities and associated powers include, initiator and proposer of policies, executive functions, guardian of the legal framework, external representative and negotiator, mediator and conciliator, and the conscience of the Community (Nugent, 1991). The Commission is, therefore, in effect the Community's Executive office (Lodge, 1994).

Indeed, just as in the U.S. Executive Branch, the Presidency is the most prestigious and potentially influential post in the Commission. The President is the principle representative of the Commission. He must try to encourage a sense of direction and a co-ordination of effort among his Commission colleagues, and he may take on specific policy portfolios of his own if he chooses. Consequently, in his role as Chief Executive, President Jacques Delors has sat in as the EC's representative in such crucial meetings as that which took place between himself and President George Bush at a summit held in Washington DC on 22 April 1992, and at the Western Economic Summits, where the heads of the major industrial nations meet (Coffey, 1993).

The work of the Commission is divided into separate policy areas in much the same way as the Executive Branch in the U.S. is divided into departments (i.e., State, Agriculture, etc.). The Commission's basic units of organization are its 23 Directorates General. Somewhat confusing for those who do not know their way around the system, these are customarily referred to by their number rather than by their policy responsibility. Thus Agriculture is usually referred to as DGVI.[5] Because the Commission is centrally involved in determining and conducting the Community's external trade relations, it naturally falls to the Commissioner of DGVI, an Irishman by the name of Ray MacSharry, to represent the EC in the area of agriculture both in formal negotiations, such as those conducted under the auspices of GATT, and in the more informal and exploratory exchanges, such as are common between the EC and the U.S. over world agricultural trade.

The constitutional basis for the Commission's external trade role is found in Article 113 of the EEC Treaty:

> The Commission shall submit proposals to the Council for implementing the common commercial policy. Where agreements [on trading matters] with third countries need to be negotiated, the Commission shall make recommendations to the Council, which shall authorize the Commission to open necessary negotiations. The Commission shall conduct these negotiations in consultation with a special committee appointed by the Council to assist the Commission in this task and within the framework of such directives as the Council may issue it.[6]

So, much like the Executive Branch in the U.S., the Commission can make treaties. However, in order for them to become law, they must be ratified by another institution, in this case, the Council of Ministers.

The principle responsibility of the Council is to make decisions which become Community law. Virtually all proposals for politically important and/or sensitive legislation have to receive Council approval in order to be adopted. The Council is, therefore, in affect the Community's legislature (Nugent, 1991).

The Council is a legal fiction insofar as there is not one Council composed of one group of ministers but a large number of sectorally organized councils, 23 as of 1989, divided into policy areas, comparable somewhat to the Committee system in the U.S. Congress (Sbragia, 1993). Among these 23 councils is one dedicated to agriculture. The Presidency of any particular council rotates between the states on a six month basis. A key advantage to holding the Presidency is that during its term a President can do more than it can as an ordinary member to help shape and set the pace of Community policy priorities.[7]

The Treaty on European Unity enhanced the domains in which qualified majority voting is legitimate, to include issues associated with agriculture and trade. The use of majority voting within the Council accelerated the process of EC decision making, which has increased the influence the Council has had on pertinent issues relevant to the Community, especially in the area of agriculture (Hosli, 1993).

The key task of the Community's Council of Agricultural Ministers is the annual price review, which results from negotiations among member states and with farm groups represented by COPA (Mahler, 1991). However, as in the U.S., much of this authority has been conditionally delegated to the Executive Branch. There are, in fact, two means whereby the Council has delegated authority to the Commission under the CAP price support arrangements. In a limited number of cases where urgent market management decisions are required, the Commission is authorized to act on its own. In other cases, however, the Commission acts under the management committee procedure. Management committees have been established by the Council for all major farm product groupings, each product group having a set of market management arrangements regulated by a basic Council Regulation. These committees are chaired and serviced by the Commission. In fact, the regular cycle or preparation of documents for, and participation in, management committees represents a major portion of the workload of the officials employed in commodity divisions in DGVI.

The members of each committee are civil servants from each member state. The management is asked to give its opinion on the matter in hand. Whatever the outcome, the Commission can then go ahead and implement its proposal. In the case of a negative opinion the Council can review and reverse the Commission's decision. Consequently, an outcome of the introduction of the SEA is the delegation of more powers to the Commission and hence the extension of procedures such as the Management Committee procedure into more spheres of Community activity, such as the CAP price support arrangements and other agricultural issues (Swinbank, 1989).

Finally, in the Council's role in external affairs, it provides the directives on which the Commission negotiates with third parties (in consultation with Council-appointed special committees) and then finalizes the process through decision and signing (Aho, 1994). This process, of course, appears very similar to the one practiced by the U.S. Congress.

The Council of Ministers and the Commission

Much like their counterparts in the U.S., the governmental institutions in the EC have also developed similar counterweights, but for different reasons and under differing circumstances. For example, the liberal free trade principles espoused in negotiation overtures and the pressures for a reformation of the CAP have all occurred by and under the leadership of the Commission. The historicism behind the formation of such ideas and, conversely, Delors's reason for supporting reform, was the damage that failure to achieve reform might do to the single market program. Delors had made the single European market something of a personal crusade and could not easily see this goal frustrated by agricultural stalemate. The formation within the

Commission of an inner circle consisting of the President, the agriculture Commissioner Frans Andriessen, and the budget Commissioner Hening Christophersen, who in 1988 sought reform and freer trade, represented only the beginning stages within the Commission of the development of a Liberal Institutionalist perspective (George, 1991). This process has not only continued but, the Commission has recently attempted to increase its power in order to distance itself from the Council of Ministers, having found itself hemmed in by the limitations imposed by powerful lobbies (Wallace, 1994).[8] This has occurred because farmers are more concerned with the level at which support prices are set than with day-to-day activities of fixing import levies and export refunds to achieve market support. As a result, farmers have tended to concentrate their lobbying efforts on the activities of the Council, particularly at the time of the annual CAP price settlement (Swinbank, 1989). Indeed, agricultural interest group politics in the U.S. and the EC are in some ways quite cohesive. In both, there are broad coordinating groups representing a wide range of producer groups. However, sector wide coordination is more formal in the EC where individual producer groups are represented in the Committee of Farmers of EC Member Countries (COPA), a federation of farm unions that lobbies the Council of Ministers (Mahler, 1991). Consequently, the Council, much in keeping with Putnam's analysis at the domestic level, has developed a Realist perspective of foreign affairs, much to the chagrin of the Commission. As such, the Council has been known to subordinate movements toward international cooperation to EC agricultural and trade policies.

The Negotiations Themselves: The Uruguay Round & Agriculture

The imbalance of trade between the U.S. and the EC is not significant, suggesting a broadly equal stake in trade by both sides and lack of decisive power by either. Total EC subsidies, including consumer transfers, State aids, and CAP benefits total $139 billion per year (Congressional Hearing, 8 May 1991). The EC spent a record $40 billion in agricultural price supports in 1991, up 31 percent from 1990. This does not include over $14 billion spent annually for EC structural policies and miscellaneous Member State programs, nor the $85 billion of transfers from the consumers in the form of inflated food prices. When the Uruguay Round began in 1986, the Community was sitting on virtually unsellable surpluses of cereals, beef, butter, olive, oil, wine and tobacco, half of which the EC wanted to dump on an already glutted world market at a book-keeping loss of 3 billion ecus (2.76 billion dollars) (Economist, 1 March 1986). From farm export subsidies alone, the EC is spending $12 billion a year, nearly 40 times the amount spent last year by the U.S. The result of all of this is that it has lowered world prices in all countries and has cost taxpayers a lot of money (Congressional Hearing, 28 February 1991). Consequently, these subsidies affect everyone.

Agriculture has been and remains America's number one export. Currently, there are a half million farm jobs producing agricultural commodities for export markets, plus another half million non-farm jobs processing, packing, and shipping agricultural exports; for every $1 billion increase in U.S. exports, the Department of Commerce estimates that 20,000 new export related jobs are created (Congressional Hearing, 8 May 1991). Indeed, the primary source of future growth in demand is outside the US, and high levels of export subsidies and internal support make it costly and difficult to compete for agricultural markets in the international arena. Subsequently, although agriculture was but 1 of 15 issues being discussed in the Uruguay Round, it was clearly the key; reform in agricultural trade was essential if the Round were to succeed.

Whereas the liberalization of agricultural trade had a low priority in previous negotiating rounds, the U.S. government made agricultural trade reform its top priority in the Uruguay Round. As a result, four major agricultural trade issues were placed on the table for discussion: trade-distorting price and income support to farmers, export subsidies, agricultural import barriers, and health and sanitary import restrictions.

Farm price and income support policies in the U.S. and the EC tend to provide incentives for surplus production. These surpluses are then exported to other countries, often at subsidized prices. These same commodity price and income support policies often lead to the imposition of barriers to imports to protect farmers from foreign competition. In the 1980s, this combination of domestic agricultural support and trade policies contributed to a buildup of stocks of major traded commodities, deterioration of commodity prices, and aggressively subsidized competition for export markets. The Organization for Economic Cooperation and Development (OECD) estimated that in 1986, the year the Uruguay Round began, the costs of agricultural support and protection exceeded $100 billion in the EC and the U.S.

Supporters of agricultural trade liberalization argue that government support policies lead to excess production, trade distortions, large budget outlays for export and other subsidies, and high costs to consumers. Because it influences farmers' production decisions, economists argue further that government support to agriculture contributes to a misallocation of global resources, is wasteful, reduces world agricultural output, and diminishes global welfare. Many think the inability of the GATT to regulate trade-distorting agricultural policies weakens the entire world trading system.

U.S. and EC farm support policies, however, have the backing of farm and commodity groups that are beneficiaries of the programs. These groups are not always amenable to negotiating policy shifts, particularly in the international forum. Despite some evidence that taxpayers and consumers are more aware of the large costs of supporting U.S. farmers' incomes, farm programs often get broad support in Congress and in the Council of Ministers.

As for import barriers, GATT member countries use a variety of nontariff barriers to impede import access to their markets. Quotas, variable import levies, and agreements to voluntarily restrain exports are among the barriers most frequently employed. In general, the GATT rules governing the use of barriers to imports of agricultural products are weak in the case of quotas and nonexistent in the case of variable levies or voluntary export restraints. There is, moreover, no generally agreed upon approach in the GATT for negotiating modifications in nontariff barriers.

Finally, GATT member countries employ numerous health and sanitary standards to regulate trade. Proponents of these standards say they are established to protect the health and safety of consumers of imported products, but critics charge that often they are used to protect domestic producers from import competition. Trade negotiators are trying to harmonize standards across countries and improve dispute settlement procedures so that legitimate standards can be distinguished from illegitimate and so that distortions in the international flow of goods can be reduced.

Prisoners' Dilemma and Chicken

At least four objections can be made to using the games of Prisoners' Dilemma (PD) and Chicken as models of international interaction. First, they oversimplify the nature of the actors and distort both their goals and policy processes. Second, they fail to acknowledge the cognitive and perceptual elements of strategic interactions. Third, they fail to capture subtle interactions - the give-and-take of bargaining, the creation of new alternatives, and the search for symmetry and joint gains. And finally, they compress a variety of bargaining situations into a single type of game when, in fact, several analytically distinct games are being played. These objections, each significant in its own right, indicate the properly circumscribed uses of gaming models in the analysis of international relations. Such models cannot adequately describe the actual play of experimental subjects, much less the play of actors as complex states. Still, as Henri Theil once remarked, "models are to be used but not be believed" (Lipson, 1993). Certainly that is true of gaming models, which are useful, despite their limitations, for the analytic exposition of bargaining relationships. They can be used to explore (1) the pattern of structural constraints on players' choices; (2) the varied inducements and punishments they represent; (3) the role of environmental variables, including time horizons, in modifying the players' interactions; and (4) the relationship between the choice of each and the outcome for all (Lipson, 1993). For these reasons I have chosen to use game theory to delineate the relationship between the players not simply as an analytical tool in and of itself, but more as an explanatory device to supplement and support the case study. This is perfectly natural considering that in theory formulation the emphasis is placed on generality rather than accuracy (Przeworski & Teune, 1970).

CHAPTER III

THE THEORY

This paper uses a micro-level approach to examine U.S. and EC trade relations from May 1985 through May 1991. This period is chosen because it predates by one year the beginning of the Uruguay Round of Multilateral Trade Negotiations (MTN) under the aegis of the GATT, and postdates by one year the beginning of the long-term negotiations which succeeded the Mid-Term Review Agreement and led up to the impasse in agricultural trade negotiations evidenced at the planned conclusion date of the Uruguay Round in 1990. The focus of this paper primarily concerns the actual agricultural trade negotiations beginning with the Draft Ministerial Declaration in Punta del Este, Uruguay in 1986 and concluding in December 1990 when the decision was made to discontinue negotiations. Two extra years of data also serve to analyze pre- and post-transition periods, which will be discussed shortly.

Four governmental agencies serve as both the unit of analysis and the players in the game, and each of these are identified as having members who primarily hold one of two ideologies. However, in using Putnam's *two-level analysis,* I have chosen to use the term *Liberal Institutionalist* in place of that which he refers to as "internationalist," and *Realist*, as opposed to "isolationist." This is done in the context of this work and to more fully augment the subject under analysis.

Demonstrating a Liberal Institutionalist perspective of economics and international agricultural trade are the EC Commission and the U.S. Administration, more specifically the DGVI and the U.S. Department of Agriculture, respectively. Members of these two political institutions were directly involved in trade negotiations in the Uruguay Round for their respective countries.[9] By the very nature of their involvement in ongoing trade negotiations, these two institutions display what can be called an *active* form of political influence, which is in direct contrast to a latent power of influence. In other words, their active involvement in the process affected the policy outcome. As will be seen in the case study itself, one type of power is more influential at a given time than another, and different combinations of influence produce different results in negotiation efforts.[10]

Exhibiting a Realist notion of world trade and economics are the EC Council of Ministers and the U.S. Congress, more specifically, members of the EC Council of Agriculture and both the U.S. House and Senate agricultural committees. In contrast to the other two players, these two institutions possess a *latent* form of political force. They typically intervene in trade matters either when they perceive that domestic security is threatened in the context of their ideological outlook or when they are required by legislative deadlines to intervene in market matters, with intervening time spans of one year or greater. As a result, their influence is less consistent than the USDA and the DGVI, thus explaining the type of force they exert on negotiations. As deadlines approach and decisions are made, what was once latent quite suddenly emerges for a short time only to return to its former position of influence.

While these two institutions can intervene in the process at any time, they have

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limit the Executive's role in the negotiating process or place more restrictions on his involvement, modifying and implementing legislation that would counteract a policy or send a policy preference message to the negotiators, and public criticism. All of these responses are aimed toward the promotion of a change in policy and/or policy proposals that can be accepted, such that relative gains are off-set and the country's well-being is not jeopardized in the process.

As for the game of Chicken, two institutions are engaged in a long standing rivalry involving a series of crises and other confrontations. In each time period, each institution selects a high (D) or a low (C) level of resoluteness; a level of resolve is relative to a player's eagerness to oppose a policy or policy proposal or not. If both institutions are resolute at the same time (DD) then a crises erupts that might escalate to war, in this case, a trade war. If each institution is willing to compromise, then (CC) occurs. If one institution is more resolute than the other (CD or DC), then the institution playing D wins the confrontation. If each institution most prefers winning to compromise to losing and least prefers the risk of crisis escalation, then each institution's payoffs match those of a Chicken game.

Both institutions can usually make themselves better off by alternating their periods of resoluteness. Rival institutions might realistically attain such a behavioral distribution during a series of repeated confrontations, provided they are able to find or establish some shared source of information that helps each determine at least some of the times when the other institution is more likely to be resolute (McGinnis & Williams, 1993). This information is, of course, tied to the annual fixing of CAP prices in the EC and the every four or five year adjustment to the farm bill in the U.S.

These latent forms of influence affect the negotiating process briefly but profoundly. The rhetoric actually leading up to a change in policy can be just as alarming, if not more, than the policy itself. Therefore, a latent power of influence most affects negotiating decisions just prior to the point when a policy decision must be voted on, when the rhetoric surrounding an issue is at its height. In the case of U.S. farm policy this phase of influence begins about six months before the agriculture or trade bill is brought to a vote. In the EC, lobbying efforts for and against decisions affecting the CAP become intense about three months before a decision is made. In addition, there is about a six month period of time after the decisions are made in both countries when negotiators are still apprehensive and uncertain about the consequences of a new policy. They take a wait and see attitude as they wonder how the changes will affect commodity prices and to what extent the Executive Branch of the other country will enforce these new policies.

The preference ordering in a game of Chicken would indicate a Liberal Institutionalist perspective, in which a high level of resolve, or rather, rejection of a policy or policy proposal, by both players would be the least welcomed scenario. In this game of Chicken the players are the USDA and USTR, the European Community's Commission for Agriculture, and both Executive branches of government in general. Directly involved in negotiations and concerned with achieving a pay-off in which the liberalization of trade in agriculture occurs, these players will allow for short-term gains and losses as long as they do not forsake their long-term goals. Because any loss requires trust, though it may only be short-term, and because trust is a rare commodity for a Realist, the Legislative Branch will often intervene in the negotiating process, leading less to cooperation and more to a narrowing of options available in a win-set. Such involvement can lead a negotiator to accept or reject the narrower prism within which are deemed possible negotiating parameters. Rejection, however, could entail a counter response in which the treaty itself is rejected. If it is accepted, then the goal of liberalization remains, though its depth is changed.

Keep in mind as these games are charted out in their various stages that U.S. negotiators originally proposed a 100 percent reduction in agricultural subsidies. However, when the Uruguay Round concluded in Geneva on 15 December 1993, it was finally agreed that agricultural subsidies would be reduced by only an average of 36 percent while subsidized exports would be cut by only 21 percent (CQ, 2 April 1994). Negotiators were not deterred from liberalizing the market, but they were prevented from doing so to the extent they would have preferred.

CHAPTER IV

THE CASE STUDY

Introductory Remarks

On 22 September 1986, the most far-reaching, comprehensive and significant multilateral trade negotiations ever undertaken was launched at a meeting of Ministers in the seaside town of Punta del Este in Uruguay. Three years prior to this meeting, the Director-General of GATT announced that several eminent people had accepted his invitation to serve as an independent group to study and report on problems facing the international trading system.[12] Their report, "Trade Policies for a Better Future," more frequently called the "Leutwiler Report," was completed and published in March 1985. The report gave inspiration for and the impetus needed to begin a new round of GATT sponsored trade negotiations that would include for the first time issues relevant to agriculture. The authors of the report simply wrote:

> "Agricultural trade should be based on clearer and fairer rules, with no special treatment for particular countries or commodities. Efficient agricultural producers should be given the maximum opportunity to compete" (Trade Policies for a Better Future, 1987).

It is on this date and with this statement that this analysis of the relationship between the U.S. and the EC relative to the issue of agriculture begins. As the process of liberalization was beginning to unfold, this relationship and the changes brought upon it by the fluctuating influence of Realism and Liberal Institutionalism, was most prevalent and certainly affected the outcome of the eventual negotiations that were to become the eighth round of multilateral talks.

March 1985 to September 1986

When the Leutwiler Report was issued, the U.S. and the EC were in the middle of a trade war. At that time the EC had an agricultural policy that amounted to high, essentially open-ended support prices for most commodities which encouraged large EC surpluses during a period of chronic world surpluses and sagging world demand. The EC then used export subsidies to move its surpluses, causing serious damage to U.S. export earnings. This certainly frustrated the U.S. Congress considering that the U.S. balance of trade in agricultural products has shrunk by $19.6 billion since 1981, as Congressmen are fond to point out.[13] The U.S., a long-time critic of EC export subsidies, began in the mid-1980s to enact export subsidies of its own. Among the first moves in 1982 and 1983 were offers of low-interest loans to purchasers of American farm exports and the use of surpluses from government stocks to reduce the prices of exports to several traditional Community customers in North America. These initiatives were formalized in the 1985 U.S. Farm Bill which, under an export Production in Kind (PIK) program, blended U.S. surplus stocks of several commodities with private stocks in an effort to compete with EC export subsidies (Mahler, 1991).

Community spokesmen typically responded to American criticism of the CAP by arguing that U.S. complaints in large part represented an effort to blame longstanding Community policies for pressures on U.S. exports that were actually the result of other factors such as currency fluctuations and the affect of the debt crisis in limiting third world imports from the U.S. The Community remained a substantial net importer of food despite CAP policies. As its spokesmen were fond of pointing out, the EC was the leading foreign market for American agricultural exports and consistently registered a deficit in its agricultural trade with the U.S. Finally, the Community noted that it was hardly the only regime to support domestic agriculture. It noted that the U.S. itself long expended substantial resources on agricultural supports and had at times aggressively subsidized exports to traditional EC markets (Mahler, 1991). Meanwhile, the U.S. accused the Community of supporting an inefficient farm sector by adhering to policies that excluded more efficient world-market suppliers from both the Community and third-country markets. American spokesmen argued that CAP policies not only represented an inefficient use of Community resources but also served to undermine accepted norms of the international trading system (Mahler, 1991). This is where their relationship stood in March of 1985.

Further adding to hostilities was that fact that during this period, the EC was enlarged to 12 member-states with the inclusion of Portugal and Spain. As a condition of entry, Agricultural Ministers required Spain and Portugal to impose new quotas and tariffs on certain agricultural products, notably corn and soybeans. They argued that these restrictions were necessary because Spain and Portugal were major producers of olive oil, a competitor of soybean oil and without the restrictions the EC's surplus of edible oils would increase.

Procedurally, the EC had never before given so little advance notice before implementation of sensitive trade restrictions of such large impact to the U.S. "We (the USDA) had been urging the EC Commission for more than two years to consult with the U.S. before locking into enlargement actions," said the Secretary of the

USDA, Richard Lyng, in testimony before Congress. "The short notice - about 3 weeks - left the U.S. with no realistic opportunity to discuss and negotiate the issues involved in enlargement in advance" (Congressional Hearing, 6 May 1986). That opportunity is required by the rules of the General Agreement on Tariffs and Trade. Clearly, in this game in which high resolve prevailed and no cooperation existed, agricultural issues related to EC enlargement were handled very differently than the issue of enlargement had been in the past. Secretary Lyng, obviously disturbed, said, "our goal through all of this has been to resolve problems through negotiations; we do not want a trade war with the EC."

In an agricultural trade war against the EC, the U.S. would lose even more than the EC, and this was certainly recognized by those who held to a liberal ideology. The U.S. would first lose more than the EC in an export subsidy war because the U.S. would start such a war with much larger existing foreign markets to defend. They would have to out-spend the EC simply to stay even. The U.S. would also lose more in a competition to increase import restrictions because on a bilateral dimension the U.S. still was selling almost twice as much as the EC was selling to the U.S. If restrictions were placed on all bilateral sales, the U.S. would stand to lose twice as much.

The U.S. believed that it was entitled, as a result of Community enlargement, under article 24.6 of the GATT to an intraline credit. This meant that compensation for farm trade damages would have to come in the form of farm trade concessions. EC officials admitted that this U.S. interpretation of GATT rules was literally correct, but they rejected intraline credits on the grounds that these were somehow impractical for actually doing business in international agricultural trade (Hearing, 22 July 1986).

The EC argued that the trade limitations were only temporary and would be phased out within a few years. However, a larger and more troubling concern for the U.S. Congress was the possibility that the EC would not treat import limits as temporary measures, but would instead extend the trade restraints throughout Europe and undercut a market that took some $2 billion of soybean and soybean products and billions of dollars of feed grains. After extremely difficult negotiations in which the U.S. came very close to imposing high retaliatory tariffs on such traditional Community exports as wine, brandy, gin, and cheese, the Community finally agreed to allow the U.S. continued access for a substantial portion of its existing exports to Spain and Portugal during a transitional period (Mahler, 1991).[14]

Congressional threats played another key role when in 1985 the Community proposed placing an internal tax on nondairy fats and oils that would have restricted EC imports of American soybeans, which constituted nearly half of all U.S. soybean exports. After more than a year of acrimonious disagreement, and in the face of determined U.S. opposition and threats of retaliation, the Community dropped its internal tax proposal and instituted more gradual caps on corn gluten feed imports than had originally been proposed (Mahler, 1991).

What must be noted at this point is that all of this rhetoric could directly be traced to comments associated with the ongoing rhetoric that surrounded the 1985 U.S. farm bill and the legislative process surrounding it. In fact, in the first session of the Ninety-ninth Congress alone, during January-June 1985, 35 bills on agricultural commodities were introduced. The Administration's general approach would have cut loans to stimulate exports, cut target prices to reduce budgetary costs, and eliminated acreage controls as unnecessary; in short, it would deregulate the commodity markets (AEIPPR, 1985). This, of course, was rejected for a more regulatory approach.

Congress introduced their 1985 Farm Bill with an assortment of programs designed specifically as retaliatory tools against the EC, who had been gaining an increased percentage of the agricultural export market while increasing outlays to their CAP. As a result of this situation, the U.S. Congress introduced a wide array of programs in its 1985 Farm Bill, which was to go into affect in 1986, to counter the EC's CAP and other such subsidies. Key among these were Public Law 99-198, the Food Security Act of 1985, which was signed into law on December 23, 1985.[15] Among its 17 titles was an extensive title dealing with trade - Title XI. This title contains a number of provisions designed to meet subsidized competition, develop new markets, and provide food assistance to deficit countries.

The Food Security Act of 1985 included a reauthorizing of such longstanding export assistance programs as Public Law 480 (Food for Peace) and establishing the Targeted Export Assistance Program (TEA).[16] It also provided continued support for several export assistance programs, such as short term export credit guarantees (GSM-102) and the Export Enhancement Program (EEP), which was initiated as a result of budget negotiations in May 1985.[17] The bill also mandated an intermediate credit guarantee program, a new export assistance program, and a pilot barter program.[18] It provided further support for the cooperator programs called for by Public Law 97-98 (another initiative the Reagan administration sought to cut), the FAS's Agricultural Information and Marketing Service (AIMS), the Export Product Review (EPR) service, GSM 103 (a new PIK program) [19, 20], the conservation [21] and acreage [22] reservation programs, long-term storage programs, [23] and an assortment of loan programs.[24] Once enacted into law, it became the responsibility of the USDA to implement and administer all of these commodity and export assistance programs. Within the USDA, the Foreign Agricultural Service (FAS) has the lead role in developing and executing the programs and initiatives outlined by Congress in Title XI.[25]

In formulating sanctions legislation, the Congress apparently intended that diplomacy would precede sanctions and that the alternative means for achieving U.S. foreign policy goals would be exhausted before sanctions were imposed (Harrison). This was the hope at the USDA as well. Liberal Institutionalists noted that although commodity programs historically had been justified by the vulnerability of agriculture to forces beyond farmers' control and the crucial place agriculture occupies in a nation's socioeconomic fabric, they still questioned the ability of commodity programs to operate effectively in the world economy as it existed in 1985. The USDA's estimate of the five year total cost of commodity programs authorized by the Food Security Act of 1985 approached $100 billion (Carr, 1988).

While the Commission, like the USDA, was working hard to bring the trade war to a close, Agriculture Ministers of the 12 EC countries met on 24-5 February 1986. In retaliation for the U.S. farm bill, the Ministers shied away from the Commission's proposals to freeze or cut prices actually paid to farmers. It was reported that Mr. Michael Jopling of Britain "felt the Commission had not gone far enough to save money, but even he made a special plea for British cereal barons, who want to get well paid for their less-than-top-quality wheat" (Economist, March 1986).

In this first stage of analysis, the effect of institutional counterweights is skewed by an inordinately influential Congress and Council of Ministers. While the perspective of agricultural trade policy held by each of the actors has been made evident, the ability of the Executive Branch in either the U.S. or the EC to influence such policy has been shown to be weak at best. However, with the legislative requirements of Congress fulfilled, Congressional influence over trade issues in agriculture should wane in the second stage. This would provide an opportunity for U.S. trade negotiators to affect trade discussions more fully than they are capable of doing in this stage. This early analysis of the relationship of the actors is made to serve as a starting point of comparison. Changes in that relationship should affect the success and failure of the GATT negotiations, and that change will be demonstrated in the next four stages in this study.

September 1986 to December 1988

The Uruguay Round of multilateral trade negotiations got underway in September 1986 when trade ministers meeting in Punta del Este, Uruguay launched the eighth round of MTNs under the GATT. The aim of the agricultural negotiations was to liberalize world trade in agricultural products and to bring all measures affecting export competition and import access under strengthened and more effective GATT rules and disciplines. Prior to September, components of the executive branches in the EC and the U.S. were able only to bring about the next GATT talks, and were powerless to stop the brewing trade war. But once negotiations opened, there was a forum then available for them to pursue a policy of liberalization.

In January 1988, an expedited approval procedure for trade negotiations expired in the U.S. leaving the Executive Branch in need of negotiating authority for the Uruguay Round. In the Summer of that year, the Congress approved just such an authorization for the President under the Omnibus Trade and Competitiveness Act (P.L. 100-418) At any other time such Congressional involvement in trade might have had a major impact in trade negotiations abroad, but the power of Congressional influence in early 1988 was minimized for a number of reasons. Primarily, the President, Ronald Reagan, was a lame-duck Executive who appeared not to be very affected by Congressional threats and intimidation. Not only wasn't he distressed that he might not get the authority typically needed by the Executive Branch to negotiate, he even vetoed the original Omnibus Trade Bill (H.R. 3) on 24 May 1988. While the House voted 308 to 113 to override the veto, the Senate was unable to do the same, so the final bill that was signed was less threatening than it could have been.

However, the President did lose some power to negotiate as a result of the bill. The Omnibus Act transfers from the President to the USTR both the responsibility for determining whether a foreign trade practice meets Section 301 criteria and the responsibility, *subject to the direction of the President*, for deciding what action, if any, should be taken against the offending country. Supporters of this approach argued that in the decision-making process U.S. trade interests have been subordinated to other foreign policy concerns. They also contended that the USTR would be less influenced by non-trade interests and would use the authority to ensure that U.S. trade rights are protected. Others argued that as a Presidential appointee, the USTR would not be likely to take action that conflicts with the wishes of the President (Cooper, 1988). Regardless, the decision had been made. In deed, the first argument was correct in that trade interests, as perceived by Congress, were in fact subordinated to other foreign policy concerns. Most certainly one of those concerns was the liberalization of commodity markets. A reason for the change in policy and why, at the same time, it failed to alarm the President was the fact that it was still ultimately up to him whether or not action would be taken against another country.

As a proponent of free trade, the President often ignored or failed to fully implement legislative programs that he felt would harm free trade initiatives. For example, the Administration made it clear that the EEP, which was originally slated to dispose of $2 billion in CCC commodities, was allocated too much and that it would not be used. Through subsequent revisions, the sum eventually dropped to $1.5 billion, and yet, only about one-third of this was used by 1988. The EEP was a subsidy, which is exactly what the administration was seeking to eliminate. So while Congress can provide the means with which to conduct a trade war, it is up to the Executive branch to implement them and other laws that Congress may pass. Typically, however, the USDA never fully uses allotted programs that run counter to its liberal ideology. Not only is this seen with the EEP, but with a host of other programs as well. Another example is the Trade Adjustment Assistance (TAA) program, which was originally established in 1985 in an effort to compensate those who lost jobs due to trade competition and to help them find new jobs through job search and retraining grants. Studies showing that in practice the program was mostly compensating rather than retraining workers, and was rarely used. In fact, the President sought to eliminate the program. Though Congress resisted this attempt and extended the TAA program until 1991, the program's scope and funding were drastically reduced (Ahearn, 1987).

Despite this activity, the 1988 Omnibus Trade Bill marked the true waning point of Congressional influence, at least as it pertained to agriculture. By granting the President the approval to negotiate, Congress had ceded its power to actively interfere in the process, and, consequently, the next farm bill was not scheduled for discussion until early 1990. Congress had, in affect, agreed to cooperate. However, their counterparts had not. Meanwhile, though the Commission and the USDA sought a liberalization of trade, they were prevented from doing so by the fact that the balance of power tilted toward the Council of Ministers at this time. The primary reason the EC Commission lacked the same level of influence as the USDA is that it had no comparable "fast-track" system under which it could negotiate. The Maastricht Treaty was still a few years away, and as a negotiating body the EC Commission was in a stage of development in which its duties had not been fully delineated. Integration was proceeding, but in the mid-1980s, the movement had not progressed as far as it had by the early 1990s. Consequently, Agricultural Ministers continued to wield a great amount of power in agricultural trade issues.

During 1987 and early 1988, major participants in the Uruguay Round made initial proposals for dealing with agricultural trade issues. The USDA made the most comprehensive and sweeping proposal. Its main components were (1) the complete elimination of all agricultural subsidies and import barriers over a 10 year period (2) the use of aggregate measures of support as a basis for reducing support to agriculture to zero over the 10 year period and (3) country plans agreed to during the negotiations that would identify the scheduled reductions in subsidies and trade barriers. With its hands tied, the Commission simply called for short-term actions to restrict support to products in surplus, harmonization of contracting parties support measures, and reductions by unspecified amounts in support.

The U.S. proposals proved completely unacceptable to the EC Council of Ministers, which could accept only some reductions. Thus at the midterm review scheduled to conclude at a meeting of trade ministers in Montreal during 5-9 December 1988, the U.S. and the EC were unable to reach agreement on the objectives of the negotiations in agriculture. In Geneva in April 1989, however, the participating countries approved a text on the Mid-Term Review including a section on agriculture, which defined a framework approach for these negotiations. The review assessed progress made during the first half of the Round and established framework agreements to guide negotiators over the remaining two years.

This second stage of analysis demonstrates that when one of the domestic actors has an influence over trade negotiations which is latent while the other actor's influence is still active, then trade negotiations fail to progress. The counterweights shown to exist in the U.S. have yet to develop fully in the EC. For these to develop, legislative approval is required of the Council of Ministers. It is in this stage that that approval is given.

December 1988 to December 1989

Following the Montreal meeting, negotiations continued on an informal basis between the USDA and the EC Commission with mediation provided by the Director General of the GATT. An agreement was finally reached in 1989 because during this period the Commission sought to finally test its growing power via the waning power of the Council of Ministers.

In small increments the Commission slowly expanded its level of influence. Much of its time in 1987 was taken up with a discussion of the need to curb the excesses of the CAP, and the introduction of automatic stabilizers to cut support prices and limit intervention mechanisms should CAP spending or production breach certain limits. The European Council finally agreed on a package of such measures in February 1988, which were subsequently enacted into law by the Council of Farm Ministers on 25 April 1988.[26] Many of these stabilizers enhanced the powers of the Commission and diminished those of the Council. (Swinbank, 1989) The introduction of Budgetary Stabilizers in 1988 removed, to a large extent, the room for maneuver at the annual price review. This gradual but relentless shift in responsibility for policy decisions away from the Council of Ministers and towards the Commission was in line with the thinking behind the Single European Act (SEA) and the rationalization of Community decision-making post-1992 (Fearne, 1991).

Next, responding to the failure of the December 1987 Copenhagen meeting of the European Council to reach agreement on reform, the Commission took the Council of Ministers to the Court of Justice for not agreeing to a budget for 1988 (George, 1991). When it happened again the following year, the Commission stepped in to fix the CAP prices for an interregnum period between the actual beginning of the new market year when new prices were needed and approximately a month after that date when the Council finally adopted CAP prices for the market year (Swinbank, 1989).

Further, on 15-16 December 1986, the Council agreed to amend its rules of procedure so as to facilitate majority voting, although it did not go into affect until July 1987. Prior to this, unanimity was the rule. If a country, such as France, chose to oppose a policy, its power proved disproportionately influential even though it was only one of twelve countries. Not until the following year did a country (Great Britain) forsake the old method of voting and request a vote by majority. It has since evolved into a time saving and issue saving device. As a result, the Commission's power increased by the very fact that a voting block was now required to defeat any item it put before the Council for approval.

This struggle for influence was an ongoing process that finally saw success for the Commission during this particular stage. Consequently, for the first time the Commission and the USDA together enjoyed the level of influence necessary to reach agreements in the area of agricultural trade where previously no agreement was forthcoming. For example, in 1987 and then again at the mid-term review held in Montreal in December 1988, the U.S. called for the complete elimination of all trade-distorting measures within ten years. This was completely unacceptable to the EC Council of Ministers, which could accept only some reduction. However, through the efforts of Arthur Dunkel and bilateral meetings between EC Commissioners Ray MacSharry, responsible for agriculture, and Frans Andriessen, responsible for external relations, and U.S. Trade Representative Carla Hills and Secretary of Agriculture Clayton Yeutter, a compromise text was worked out. A framework agreement on agriculture was reached at meetings in Geneva, April 5-8, 1989. The long-term objective was to be "a fair and market-oriented agricultural trading system." There should be "substantial progressive reductions in agricultural support and protection sustained over an agreed period of time." For the short term, the parties agreed to ensure that tariff and nontariff market access barriers in force would not be intensified, nor would support prices to producers be raised (Laursen, 1991).

Trade negotiators also established a workplan for completing the negotiations. Prior to December 1989, participants to the agricultural negotiations were required to advance detailed proposals for comprehensive agricultural policy reform. On October 25, 1989, in Geneva, U.S. trade negotiators submitted the U.S. proposal, which outlined measures for reform in four policy areas: import access, export competition, internal support, and health and sanitary measures. In general, the proposal would have required the phasing out of some GATT rules, writing new rules, and devising disciplines to enforce them.

Domestic subsidies to agricultural producers that distort trade would be phased out over 10 years. Included among subsidies that would have been phased out were administered price systems, income supports linked to production and marketing, and transportation subsidies. A bewildered Senator Craig asked,

> "Since U.S. agriculture has had as its safeguard mechanism Section 22 of the 1933 Agricultural Act which permits the President to impose quotas on imports which interfere with U.S. price support programs and since over a period of 50 years some 12 different commodities have been safeguarded by this law for which the U.S. received a GATT waiver in 1955 (under the provisions of GATT Article XXV:V, the obligations of the U.S. under the GATT are waived by agreement of the contracting parties to the extent necessary for the U.S. to apply section 22, as provided in U.S. law. Without this critically important provision, the U.S. could not maintain many of its current agricultural import quotas without thereby violating its obligations under the GATT), why would you be willing to negotiate it away ?" (Hearing, May 1991).

Carla Hills replied, "If we want to reform non-tariff import barriers (NTBs) on agricultural products in other countries, we must be willing to reform our own NTBs. Whenever we raise the issue of reforming NTB's on agricultural products in other countries in the GATT discussions, the immediate rejoinder relates to the U.S.'s willingness to undertake similar actions on out Section 22 import quotas." A move of unsolicited cooperation must first be made in a process of negotiation in order to coax another actor into playing a game of tit-for-tat, and this is the move initiated by the USDA.

Among policies the U.S. would permit would be direct income payments to producers that were not tied to production, environmental and conservation programs, bona fide disaster assistance, and bona fide domestic food assistance. All nontariff barriers to agricultural products would be converted to bound tariffs and ultimately reduced to zero or low levels. Export subsidies would be eliminated as would all export prohibitions and restrictions over a five year period. Also, safeguard mechanisms would be provided to protect against surges of imports during the transition period. If either an import volume or an import price trigger is exceeded, a country would be allowed to raise tariffs automatically to prevent an unexpected increase in imports. However, the two safeguard mechanisms could not be invoked simultaneously. If the price safeguard were triggered, the surcharge could not exceed 50 percent of the difference between the trigger level and the actual duty-paid price. In the case of the quantity trigger, the tariff could be raised to the lower end of the tariff level that prevailed in the first year of the implementation period or 200 percent of the tariff in effect in the year in which the action is taken. "We do recognize that temporary import relief measures may be useful during the implementation period. We have proposed that a tariff snapback mechanism be permitted. Under our proposal, if either an import volume or an import price trigger is exceeded, a country would be permitted to automatically raise tariffs to moderate a surge in imports, i.e. no injury investigation would be required," said Carla Hills in a hearing before Congress. "Our proposal differs significantly from the EC's corrective factor system both in its design [no automatic exchange rate adjustor], for example, and in its temporary (versus permanent) nature" (Congressional Hearing, May 1991).

Almost a month later, on 19 December 1989, the EC Commission submitted its proposal. The Commission called for limited tariffication accompanied by "rebalancing" of external protection (i.e., raising levels of protection for cereal substitutes and oilseeds while lowering protection for cereals). Commitments to reduce support and protection would be in terms of percentage reductions in an aggregate measure of support, not specific policies as proposed by the U.S. The proposal also called for more flexibility in commitments and implementation periods for support reductions. The EC wanted their corrective factor system to be a permanent "overlay" to fixed tariff equivalents. In many aspects, the EC's system was just like their current variable levies. The EC's corrective factor system would allow for complete offsetting of all exchange rate movements, partial offsetting of non-monetary price movements up to a threshold, and complete offsetting of non-monetary price movements beyond the threshold.

In the negotiating process proposals were modified over time, by the U.S. on 15 October 1990 and by the EC on 8 November 1990. The initial proposals were simply starting points for a bargaining process that would eventually lead to an agreement. The U.S. Congress, however, did not see it that way. Impatient and eager to reduce EC subsidies, Congress began work on their next farm bill with this initial proposal in mind. Ray MacSharry vigorously pursued the cause of agricultural reform. Despite his effort, he still found himself boxed in by the continued reluctance of the French and German governments to accept the implications of policy change (noting that the French and German governments are a voting block in and of themselves). MacSharry dramatically resigned in mid-negotiation with the U.S. Administration. Here it should be recorded that on the GATT package as a whole, the failure to move the negotiation forward was not for want of great efforts by the Commission, which found itself squeezed between the often ill-judged provocations of the U.S. Administration and the inflexibility of several EC governments, especially the French (Wallace, 1994). On the contrary, with no "fast-track" approval, the Commission was doing its best by simply forcing the issue and hoping that either the Council was distracted with other issues at the moment that required more of its time and attention, or that indecision and political conflict in one area allowed the Commission the opportunity to exert its own influence. Regardless of the situation, the Council would still have to approve any agreement the Commission negotiated. Thus this period of cooperation proved to be short lived.

In this third stage negotiators representing the USDA and the EC Commission are unhindered by representatives of government at the domestic level. With no legislative requirements in the offing to affect agricultural policies or to hinder the ability of the actors to negotiate, GATT agreements between the U.S. and the EC are reached for the first time. At no time is the institutional counterweight of liberal institutionalism more conspicuous. Only when this situation exists is progress made in trade negotiations between the U.S. and the EC, and this particular situation would not exist again until 1993.

December 1989 to December 1990

When long-term reform proposals were submitted in December 1989, there was again a stalemate. The U.S. proposal called for tariffication, that is, the conversion of all market access barriers to tariffs. The EC rejected the principle of tariffication. These tariffs would have been reduced to zero or low levels over a period of ten years. Most trade-distorting internal price and income support measures would have to be phased out over this period. Less trade distorting measures would be disciplined or permitted to stay. Export subsidies would have to be phased out over a period of five years. The EC was not prepared to accept this proposal. The U.S. GATT proposal would have ended farm production subsidies and the export subsidies that usually accompany them. The U.S. and other nations would be free to provide transition support and income transfers to the farm sector as long as such aid does not subsidize production or otherwise interfere with trade. The concept of ending the influence that agricultural income support programs have on agricultural production and marketing decisions has been labeled "decoupling." Decoupling would constitute a major change in the U.S. farm support system and is clearly not without broad opposition. Included among the available options to help farmers adjust to a free-market environment are transitional payments, payments for conservation and other socially desired services, and rural development investments promoting opportunities to supplement farm income with off-farm employment (Carr, 1988).

A counter-offer was made on the basis of an aggregate measure of support (AMS). Different forms of protection would be captured into a single measure and targets for reducing this single measure would be agreed upon. It would be up to individual countries to decide which specific measures should be cut and by how much. The AMS was to apply to groups of commodities like grain, rather than to individual commodities like wheat or corn. The AMS offer was clearly not acceptable as it allowed support reductions in one category to be offset by increases in another and this could have implications for trading partners. At its meeting on 18 and 19 December 1989, the Council concluded after a wide-ranging exchange of views on the Commission communication on agriculture that the document could be submitted to the GATT negotiating group on agriculture at the meeting on 19 and 20 December as the Community contribution. The Council noted that the Commission would ensure that the basic principles underlying the CAP would be safeguarded and the Community's position was still based on the aim of reducing overall support. In this comprehensive proposal the Community reiterates the basic principle of dual pricing and undertakes to reduce the support given to agriculture production over an initial phase of five years. In addition, it is willing to accept some "tariffication," on condition that the problem of rebalancing can be resolved. Special and differentiated treatment would be granted to developing countries (Secretariat-General, 1990).

As a result of the opposition apparent to its initial proposal in 1989 and then again in July 1990 at the Houston Summit, the U.S. revised its earlier proposal during the Brussels meeting in 1990. The U.S. requested the elimination of 75 percent of internal agricultural supports and import protection, and a reduction of 90 percent of export subsidies, phased in over ten years (Mahler, 1991). Congress acknowledged that the Bush Administration was softening its agricultural position in the trade talks by making it clear they were not happy with the fact the original proposal needed revision. A study submitted to Congress espoused that "even if an agreement could be struck, it would certainly disappoint influential domestic constituents in agriculture" (Aho, 1994).

For most of the Uruguay Round negotiations, the EC refused to make a concrete counter-proposal to the U.S. demands. Finally in October 1990 it proposed a 30 percent cut in its internal agricultural supports retroactive to 1986 (which in effect meant a 15 percent cut). However, the EC refused to make a specific commitment to reduce export subsidies or barriers to imports. The EC's proposal was promptly denounced by the US, which restated their position that the success of the entire Uruguay Round negotiations hinged on the achievement of substantial liberalization of agricultural trade (Mahler, 1991). At one point it appeared that the basis of an acceptable compromise might be found in a proposal (draft text) put forth by Mats Hellstrom, the Swedish Agricultural Minister and Chairman of the Negotiating Group on Agriculture. It called for a 30 percent cut in internal supports, import barriers and export subsidies over five years. In the end, however, the EC member states most committed to the CAP prevailed. This text was far short of what the proponents of liberalization had asked for, but when the EC refused to accept even the Hellstrom text, negotiations on agriculture and the entire Uruguay Round broke down (Debroy, 1991). Talks at the December 1990 Ministerial meeting in Brussels broke up because of the EC's refusal to make substantial offers to reduce its agricultural subsidies and to reform its CAP (which the EC often refers to as the glue that it holds it together). The U.S. walked out in Brussels vowing not to return until the EC was more forthcoming (Aho, 1994).

The effects of the relationship between the four actors in the fourth stage mimic that which occurred in the second. This time it is the Council of Minister's influence which is latent, while the U.S. Congress begins debate on the 1990 farm bill. This stage demonstrates that it is not the domestic actor of one particular government that is of pertinence in this study but that at least one of the two actors at the domestic level does in fact exhibit the ability to influence trade negotiations.

December 1990 to May 1991

The European Commission, which negotiated in the GATT talks on behalf of member governments of the Community, had no official authority to negotiate specific reductions in export subsidies and market access measures, although it had an unspecified authority to be "flexible." Commission sources indicated that this "flexibility" could ultimately be used as the Commission's own version of fast track authority, allowing it to commit the Community to politically-sensitive farm policy reductions even over the objections of some member governments. However, when members of the Commission attempted to use this flexibility in just this way in December of 1990 at the Uruguay Round ministerial meeting in Brussels, EC farm ministers immediately undercut their negotiators, claiming that the Commission exceeded its mandate. French sources indicated the Commission acted outside its mandate in its assurances in February 1991 that it could negotiate reductions in export subsidies and market access (Congressional Hearing, 28 February 1991).

The introduction of the 1990 Farm Bill in May of that year and the associated Congressional rhetoric helped to temporarily derail the Commission's attempt to increase its power as the Council of Agricultural Ministers sought to answer Congress with its own tough stance. Consequently, the European Commission's green paper, which proposed a shift from price supports to more selective and less market distorting forms of assistance to farmers, was successfully sandbagged by the Council of Agricultural Ministers and the European farm lobbies.

During this stage of negotiations, the power of the Congressional agriculture committees again surfaced, as a result of the legislative process surrounding the 1990 farm bill, temporarily replacing the USDA in its level of influence. Consequently, the Budget Reconciliation Act of 1990 contained provisions such as the so-called "GATT triggers" that could potentially affect agricultural export programs and the budget reductions from agricultural programs, if Uruguay Round negotiations did not result in a GATT agreement. First, if the U.S. was not operating under a GATT agreement by June 30, 1992, the Secretary of Agriculture was required to increase export subsidy programs by $1 billion in fiscal years 1994 and 1995. Under this provision, the Secretary of Agriculture could introduce a marketing loan for wheat and feed grains. Second, if the U.S. was not operating under a GATT agreement by June 30, 1993, the Secretary of Agriculture could also waive the cuts in agricultural spending included in the Budget Reconciliation Act. Clearly, at this point Congress was trying to send a message to the EC, concerning a perceived inadequacy with EC concessions.

Subsequently, members of the Agricultural Negotiating Group agreed to present specific proposals for reform by October 15, 1990. The U.S. submitted its proposal before the deadline, proposing a 3 percent minimum access level to be expanded over time, a 75 percent reduction in tariffs, a 75 percent reduction in trade distorting internal support, and a 90 percent reduction in export subsidies over ten years beginning in 1991. The EC's proposal was introduced on November 8, three weeks after the agreed deadline, and sought only to reduce internal support by 10 to 30 percent over ten years. The Council of Ministers, still upset with Congress and the new farm bill, had spoken.

The Uruguay Round was scheduled to conclude the week of December 3-7, 1990, in Brussels, Belgium. Instead, negotiations broke down largely because of the uncooperative nature of the two Realist institutions playing a game that requires trust and cooperation in order for a positive outcome to occur. The EC argued that its proposal to reduce the aggregate level of internal support to agriculture would result in reduced export subsidies and increased access for agricultural imports, but balked at making specific commitments to increase access or to reduce export subsidies. The EC also refused to accept as a basis for negotiation a proposal made by the Chairman of the Agricultural Negotiating Committee for GATT members to make 30 percent cuts in internal support, market access barriers, and export subsidies over a five year period beginning in 1991. The EC simply maintained that the U.S. would have to lower its expectations concerning the depth of cuts in agricultural subsidies in order to make progress in the agricultural negotiations.

Representative Roberts summed up the situation and his response to it when he said:

> "As a result of supply management, the U.S. has cut over $ 13 billion in price supports; between 1980 and 1990 the U.S. set aside 220 metric tons of wheat alone, while in that same period the EC increased their wheat production 5 1/2 times, an increase of about 280 million tons of wheat. We set aside and they produce more than we set aside. That is a dead end street. The same thing is true with other agricultural commodities (eg. beef, pork, oilseeds, etc.) Now, one of the ways that we can make it stop is to gently or not so gently tap them on the shoulder and say: You are going broke; you are spending $ 45 billion. Another way that we Dobermans like is to say: Look, in our national interest, we are not going to put up with this. If you have a trade distorting subsidy, then we have an Export Enhancement Program" (Congressional Hearing, 28 Feb 1991).

Accordingly, the EC's response to such American frustration and threats was printed in a study entitled, "Disharmonies in EC and U.S. Agricultural Policies," published in 1988 by the Commission of the European Communities. In this report it was claimed that when the CAP had been founded, the two sides had made a deal which removed any possible American objections to the policy. Thus, in exchange for American acceptance of the idea of the variable levy, a king-pin of the CAP (which, in turn, implied acceptance of export refunds or subsidies), the Community agreed to accept low-duty imports of all oilseeds, proteins and grain substitutes. At that time (1957), European Economic Community (EEC) imports of such products were very low whereas today they are important because they successfully compete with high protected and expensive feedgrains for cattle and other animals. The real problem is that since the founding of the CAP, the situation of the world agricultural trade has completely changed (Coffey, 1993). Meanwhile the EC claims that they are keeping their side of the deal and that it is the U.S., not themselves, who is trying to renege on an international agreement. Simply said, the conflict continues.

The fifth stage brings the analysis full circle, thereby demonstrating that the first stage was not an anomaly. Legislative requirements during this period necessitated the participation of a Legislative Branch in the U.S. and the EC that both provoked caution among negotiators and incited hostility among members of the opposing Legislative Branch. When Destler's *counterweights* are offset by the involvement of Congress and the Council of Ministers in the making of legislative policy pertinent to trade issues in agriculture, then not only is progress in negotiations next to impossible but trade war becomes probable. In deed, in this final stage of analysis a trade war was clearly visible.

CHAPTER V

CONCLUSIONS

Cooperation is or is not possible, dependent at any given time on the fluctuation of influence at the domestic level. Members of the European Council of Agricultural Ministers and U.S. Congressional committees on agriculture were into an ongoing locked game of Prisoners' Dilemma. However, their actual influence in the negotiating process varied. When either power ascended it would sway the negotiations toward a more cautious approach. If both powers surfaced at the same time, a trade war emerged. When both legislative institutions were not in a position to exert their latent powers of influence, then members of the European Commission for Agriculture and the U.S. Department of Agriculture were able to facilitate the cooperation necessary to reach difficult agreements.

In the first stage analyzed herein, the roles of the negotiators were negligible. Although the game had not begun for them, their ideological goal of free trade helped to bring the ensuing trade war to an end. Conversely, both legislative branches were engaged in a trade war with one another that would take eight years of negotiating to resolve before many of the difference could adequately be confronted. The second stage commenced when the USDA sought to totally eliminate export subsidies in an initial proposal before a ministerial meeting of the Uruguay Round of the GATT negotiations. Preventing them from proceeding was a Council of Ministers unwilling to go that far. Meanwhile, the Commission as an institution was not yet in a position to challenge the Council.

The third stage was characterized by cooperation, with the Commission and the USDA exerting the greatest influence. In their game of Chicken they chose to cooperate, and without an outside influence to get in their way, this was the one time an agreement was reached. The next stage entailed Congressional rejection of EC trade proposals. While the EC was trying to cooperate, Congress took it upon itself to reject the offer. This in turn initiated the fifth stage, in which the Council of Ministers decided not to cooperate as a result of the continual rejection of EC proposals by Congress and the subsequent U.S. farm bill. Consequently, another trade war ensued.

Within these five stages can be seen a pattern of predictable institutional influences fluctuating between the international and domestic level of analysis. Separate ideologies guided the direction toward which trade negotiations would gravitate. Subsequently, the final outcome of a negotiation would be contingent on which ideology had the power to influence the process the longest.

This case study and the theory informing it was designed to demonstrate that in the Uruguay Round of GATT negotiations between the U.S. and the EC there were two sources of influence over trade issues in agriculture. At the domestic level, influence waxed and waned according to whether or not legislative action was required in order for the Executive Branch to actively participate in negotiations. As the influence of Congress and EC Ministers decreased then progress in negotiations was possible. When their ability to influence the negotiations increased congruently, then a trade war would result. And when one rose in influence while the other waned, then trade negotiations would stall. Each of these events was demonstrated to have occurred within this study.

Accepting Destler's Counterweights alone was not enough. The domestic level of influence was needed to be taken into account in order to demonstrate that such counterweights are in fact required if trade policies are to move in a more liberal direction. Having a set of counterweights is no guarantee that a Realist perspective of world trade will be prevented from shaping trade negotiations, despite the liberal goals associated with them. It is the analysis of this domestic level variable and the context within which this variable is placed that separates this study from others.

In the future, three more stages could be considered for evaluation under this type of study. Passage of the Maastricht treaty and subsequent efforts toward CAP reform, may lead to the diminution of the influence of the Council of Ministers. This would move negotiations and the relationship of the actors from the confrontations of a trade war to the inevitability of deadlock. A seventh stage would see the influence of Congress initially diminish because of the high levels of popularity experienced by the Bush Administration as a result of Desert Storm and then diminish further because of Congressional elections that challenged many Representatives from farming regions of the country. A challenge brought on by a growing hostility toward the national deficit by voters, combined with a decline in the number of farmers, and opposition to ineffective and costly farm subsidies. This opened the way for the agreements which eventually led to the conclusion of the Uruguay Round in December 1993. A stage eight would see a Congress hostile to the required costs of implementing the Uruguay Round. Congress must approve the results of the negotiations before they are to become law in the U.S. Thus, two of eight stages would entail a relationship among the actors in which trade negotiators were able to achieve success without the influence of domestic level politics. This amounts to a "time opportunity" of 20 percent. This percentage is interesting because, as was mentioned before the presentation of the case study itself, the U.S. initially sought a 100 percentage reduction in export subsidies, but eventually had to settle for only a 21 percent reduction. This is an outcome percentage which roughly corresponds to the time opportunity of the negotiators.

Statistics aside, Mahler offers the best conclusion to this study when writing that "relations between the U.S. and the EC will continue to be affected by the complex mix of domestic and international forces that has characterized their trade relations in recent decades" (Mahler, 1991). This is an apropos statement that influenced this study, and offers a pertinent area of future inquiry for students interested in agricultural trade issues.

However, the theory and variables that are outlined in this study need not be used simply for an analysis of issues relevant to agriculture, for a more general use is possible. It might be viable to speculate, for example, that national security/military issues might fall within a category of issues in which negotiations are conducted by an Executive Branch, with occasional influence exerted by Legislators concerned with shrinking budgets and rising national security costs. Those issues of conflict between the two branches of government do not necessarily need to carry the same weight of importance that agriculture carries. With a budget outlay, for example, of 65 percent of the GNP (Gross National Product) going toward financing of the CAP in the EC, attaching such financial importance to any other issue would be impossible. This does not mean that domestic hostility to a policy under negotiation between two negotiating partners should be ignored. On the contrary, the variables in this case study should serve well any comparative probe in which Putnam's *two-level analysis* is possible.

NOTES

[1]The first principle of the CAP is the principle of common prices. Different support prices within the EC could not be maintained without internal tariffs, which violates the spirit of a common market. Thus, a common set of support prices was a practical necessity. However, the principle also embodies the belief that common prices will lead to regional specialization and a more efficient allocation of resources. (For an empirical analysis of such regional changes, I recommend I.R. Bowler's article, "Intensification, Concentration and Specialization in Agriculture: the Case of the EC," in Geography, Volume 71, Part 1, January 1986). The gain in efficiency was expected to benefit both producers and consumers. Initially, these common prices were set well above the levels of world prices, reflecting the historical use of high support prices found in the original member-states.

A second principle underlying the CAP is the principle of common financing. This means that the member states contribute equal percentage points of their tax revenues to a centralized fund from which the CAP is financed. Revenue from customs duties and levies on agricultural trade are also transferred to this fund rather than being held by the country that collected them. Interventions in each country's agricultural sector are financed not by the individual states but collectively at the community level.

A final principle of the CAP is referred to as community preference. This principle requires that no agricultural products from third countries be sold at prices lower than those of another member of the EC. It also precludes separate, preferential agreements with countries outside the EC unless these arrangements pertain to the entire community. Community preference is generally accomplished by taxing goods imported from third countries so that, for example, the price of U.S. corn in Germany is higher than the price of French corn delivered to the same destinations. (Lyons)

[2]"Omnibus" means that two or more commodities and two or more policy instruments are covered.

[3]Because the internal stability and the external alignment of U.S. allies depended on their economic recovery and prosperity, the U.S. provided massive aid to facilitate this recovery, permitting recipients to buy needed capital goods in the American market. But the allies' return to self-sufficiency also depended on their ability to sell in the U.S. market. To make this possible, and with the lesson of Smoot-Hawley still in mind, the U.S. granted them market access following the general nondiscriminatory trade rules of the newly established GATT regime.

[4]On the general issue of federalism and foreign policy, see: Michelmann, Hans J. and Panayotis Soldatos (Eds.). (1990). Federalism and International Relations: The Role of Subnational Units. Oxford, Oxford University Press; Duchacek, Ivo D. (1986) The Territorial Dimension of Politics Within, Among, and Across Nations. Boulder, Westview Press; and, Lodge, Juliet. "The European Parliament and the Authority-Democracy Crises, "The Annals of the American Academy of Political and Social Science. Volume 531: The EC - To Maasstricht and Beyond. ed. Pierre-Henri Laurent. January 1994.

[5]Agriculture is the second largest of the Commission's 23 Directorates General; only DGIX is larger and that deals not with a policy sector but with Personnel and Administration.

[6]For an informative explanation of the legislative process in the EC, see: George Tsebelis's article, "The Power of the European Parliament as a Conditional

Agenda Setter," in the American Political Science Review (Volume 88, Number 1). This volume was published March 1994.

[7]For an intriguing study on the importance of the Presidency, see: Alan Swinbak's article, "The Common Agricultural Policy and the Politics of European Decision Making," in the Journal of Common Market Studies. (Volume XXVII, Number 4, Pages 306-321). This journal was published in June 1989.

[8]Recent proposals by the Commission aim to change the procedures for EC trade remedy actions by giving the Commission the right to implement measures unless disapproved by a qualified majority in the Council of Ministers. Currently a qualified majority of the Council has to approve Commission proposals for remedial actions in order to bring them into force. (GATT Secretariat, 1993)

[9]Just as the Agricultural Negotiating Committee worked under the umbrella of the Trade Negotiating Committee, so too did the USDA work under the umbrella of the Office of the U.S. Trade Representative (USTR).

[10]The next farm bill is scheduled for 1995. Previous farm bills were ratified and passed into law in 1981, 1985, and 1990.

[11]For example, when Congressional influence is latent, liberalization of the market goes unimpeded, but when the power of Congress comes to the forefront when debate is called for on a legislative item, then the process of creating a free market is slowed down.

[12]The members of the group were Senator Bill Bradley, Dr. Pehr Gyllenhammar, Dr. Guy Ladreit de Lacharriere, Dr. Fritz Leutwiler (Chairman), Dr. I.G. Patel, Professor Mario Henrique Simonsen, and Dr. Sunitro Djojohadikusumo.

[13]This reference point is often the result of an exaggerated or a misperceived notion of agricultural affairs. The 1970s and early 1980s were an anomaly by which comparisons are still made, thus distorting an accurate picture of an appropriate rate of annual growth in demand for farm products abroad.

The 1970s saw unprecedented growth in the world market for farm products, particularly farm products produced in the U.S. This growth had its roots in an unusually bullish combination of slowed growth in production and continued growth in consumption overseas.Growth in production abroad slowed from 2.8 percent a year over the 1950s and 1960s to 2.2 percent in the 1970s. Growth in consumption also slowed, though less significantly, from 2.9 to 2.7 percent per year. The widening difference between growth in production and consumption that resulted increased the rest of the world's dependence on U.S. production. Growth in world trade increased from 3.5 percent per year over the 1950s and 1960s to 4.7 percent per year in the 1970s, while annual growth in U.S. exports accelerated from 4 to more than 10 percent per year. (Thompson, 4) The factors underlying slowed growth in production abroad have been well-documented. Falling commodity prices and farm incomes discouraged investment in agriculture in much of the 1950s and 1960s. Many developing countries consciously underwrote industrial development with resources transferred from their farm sectors; resources flowed out of agriculture in many of the developed countries as well. As for the growth in consumption, rapid economic growth, combined with population increases and urbanization in the middle-income countries generated unprecedented growth in demand for a wide variety of goods and services. Growth in demand for farm products shared in this general expansion as rising incomes allowed consumers to upgrade and diversify their diets. Much of this growth was met initially through local increases in agricultural production. But with limited capacity to produce locally and crop shortfalls a problem, many countries turned to the world market as a regular source of supply. Several international financial developments reinforced this growing dependence on agricultural trade. The world money supply more than doubled during the 1970s as the Euro-dollar market expanded, as new reserve assets such as SDRs were created, and as the world's banking system successfully recycled the OPEC petro-dollars. This expansion provided the financial underpinning for an expanded world trade. Also, with the value of the U.S. dollar declining, the cost of importing even with borrowed money actually fell for much of the decade when gauged in local currency terms.

In this environment, world agricultural trade expanded from $50 billion a year in 1970 to more than $225 billion by 1980. The number of countries depending regularly on imports or exports for more than five percent of their food supplies or markets grew from less than 25 to more than 40 in the same period. U.S. export gains increased the acreage needed to meet the foreign demand from 70 million acres in 1970 to 140 million in 1980.

Many of the same factors which worked to expand trade in the 1970s worked in reverse in the early 1980s. While growth in production abroad rebounded from 2.2 to 2.6 percent per year with expanded investment in agriculture and more normal weather, growth in consumption has dropped off slowly. As a result, growth in per capita consumption abroad in the 1980s slowed to less than two-thirds the pace of the 1970s. This slower growth has allowed many importing countries to limit, and in some cases reverse, their dependence on imports; such was the case with the EC. The tightened supply and rising cost of credit also has worked to discourage imports in the 1980s. With the value of the dollar up sharply, the local currency cost of transactionscarried on in dollars, including repayment of debts incurred in the 1970s, also has risen sharply. These factors have forced many developing countries to reduce imports and allocate their scarce foreign exchange to servicing their accumulated debt and also encouraged many developing countries to slow or reverse growth in imports. Agricultural trade did not fare well in the adjustment process touched off by these changes. While world trade stagnated over the first half of the 1980s, U.S. farm exports fared even worse, with shipments off a third from the 1981 record. In 1985, the time at which my study begins, U.S. agricultural exports had fallen from a high of $43.8 billion in 1981 to less than $30 billion.

However, most economists were predicting in 1985 that the total volume of U.S. agricultural exports, which rose from 40 to 150 million tons in the 1970s at an annual rate of more than 10 percent, would return to a more normal long-term growth of 2.3 percent in the period counting from the peak in 1979-81 to the year 2000. (Hearing 3 June 1986, page 48) And, in fact, that is what has been happening. However, despite attaining such information in Congressional hearings by government and corporate economists, Congressmen still continue, to use 1981 as the base date for comparisons in agricultural export growth rates - a year in which the rate of growth was abnormally high. Their Realist ideology could be one reason for this apparent misinterpretation of agricultural affairs; by so doing, they are more easily able to arm their Farm Trade bill with protectionist measures.

[14]The temporary solution worked out entailed that the import of U.S. origin feeds into Spain, for example, would be measured against a standard tonnage per month for six months. If imports fell below that quantity in any month, the EC said it would make up the difference vis-avis a reduced levy on grain into the other Community member countries on grain.

[15]The Food Security Act of 1985 (P.L. 99-198) was designed to lower commodity prices, making U.S. food exports more competitive, providing credit and subsidies to expand export markets, maintaining farm income with large Government payments, and controlling excess production, but gradually reducing the Government's role in agriculture. As a result of these policies, net farm income improved despite lower commodity prices, and, with the devaluation of the dollar, U.S. exports began to increase. However, Federal outlays for commodity programs reached a record high $25.8 billion in fiscal year 1986 and totaled $22.4 billion in fiscal year 1987. (Carr, 1988)

[16]The TEA, Section 1124 of the Food Security Act of 1985, provides that for each of the fiscal years 1986 through 1988, the Secretary of Agriculture shall use not less than $110 million on commodities owned by the CCC (a U.S. government-owned and operated corporation which is responsible for financing major USDA programs and maintaining stocks of commodities obtained through various price support programs) for activities authorized by the Secretary to counter or offset the adverse affect on the export of a U.S. Agricultural commodity or the product thereof of a subsidy, import quota, or other unfair foreign trade practice. The TEA program was funded entirely through issuance of CCC generic commodity certificates, rather than

through payment of CCC funds. For each of the fiscal years 1989 and 1990, the minimum dollar amount of funds or commodities required to be used for such purposes increased to not less than $325 million. Priority for such export assistance was to be provided for agricultural commodities or products with respect to which there had been a favorable decision under Section 301 of the Trade Act of 1974, or for which exports had been adversely affected by retaliatory actions related to a favorable 301 decision. Two basic programs that operated under the auspices of the TEA program were a generic promotional program with nonprofit agricultural associations and state organizations, and a brand-identified or high-value promotional program with private U.S. firms. By 1988, however, only $60 million of the $110 appropriated had been used by the USDA. (Congressional Hearing, 8 May 1991)

[17]The EEP was originally established in May 1985 following extensive lobbying by an informal coalition of agricultural trade organizations. It was modified in December 1985 by the Food Security Act of 1985 and again by the Food Security Improvements Act of 1986. The Secretary of Agriculture is required to dispose of a minimum of $1 billion and a maximum of $1.5 billion in surplus agricultural commodities owned by the Commodity Credit Corporation (CCC). This amount was to be made available over a three-year period ending in September 1988 as a bonus to U.S. exporters to expand sales of specified U.S. agricultural commodities in targeted markets, specifically the EC. This program was subsequently extended through 1990. In practice, the bonus is a subsidy in kind which enables exporters to lower the price of their commodities to be competitive with subsidized foreign agricultural exports. According to Agriculture, the EEP was aimed at the EC because it directly subsidizes

exports; the EEP was viewed as a means of persuading the EC to negotiate away its own export restitution program. (Hearing 12 March 1987, page 195) Over the initial three year period, 64 initiatives had been announced covering 40 countries and 12 commodities; the total market value of bonuses awarded was about $600 million. As a divergent but important point, it is interesting to note that the EEP was originally slated to dispose of $2 billion in CCC commodities, but the administration made it clear that this amount was too much and would not be used. Through subsequent revisions, which have already been noted, the sum eventually dropped to $1.5 billion. Of this, only about one-third of it was used by 1988. The EEP was a subsidy, which is exactly what the administration was seeking to eliminate. While Congress can provide the means with which to conduct a trade war, it is up to the Executive branch to implement them and other laws that Congress may pass. Typically, however, the USDA never fully uses allotted programs that run counter to its liberal ideology. This is seen not only with the EEP, but also with a host of other programs as well. Although EC officials openly criticized the EEP as an illegal subsidy program because it targeted and, in their opinion, undercut world prices, the initial response of the Community to the EEP was a wait-and-see attitude. Later, however, the Community made a determined effort to protect what it considered its markets by providing increased and country-specific restitution (subsidy) payments for sales to countries targeted under the EEP.

[18]Section 1129 of the Food Security Act of 1985 provided for a pilot barter program to be carried out during fiscal years 1986 and 1987. The program was to be carried out with at least two nations which have food and currency reserve shortages.

It called for the barter of surplus CCC commodities for strategic and or other materials, that the U.S. does not produce domestically in amounts sufficient for its requirements and for which national stockpile reserves or goals established by law are unmet. Normal commercial trade channels had to be used and commercial marketings were not to be disrupted. By 1987, the Secretary of Agriculture reported to Congress that no agreements had been concluded for the pilot barter program, despite substantive discussions with several countries.

[19]Voluntary diversion has taken place under payment-in-kind (PIK) programs, whereby farmers are paid in grain from CCC stocks in amounts approximately equal to their forgone production. Since 1986, producers have been offered additional incentives to divert acreage. Producers receive deficiency payments on 92% of any acreage diverted from production over and above the minimum diversion required under the ARP. When the program was instituted in 1986, the maximum amount of acreage eligible for deficiency payments was 50% of the farmer's base acreage. Currently, farmers may divert 100% of their base acreage and remain eligible for payment on the acreage diverted in excess of the ARP constraint. This paid diversion program is hence called the 0-92 program, since producers can plant 0% of their base acreage while receiving deficiency payments on 92% of eligible acreage.

[20]The in-kind subsidy would to some extent reduce CCC stocks that are costing the government more to store than the expected returns. (AEIPPR, 1985)

[21]Subject to the discretion of the Secretary of Agriculture, yearly diversion rates are established that limit the amount of a participating producer's base acreage eligible for payments through the Acreage Reduction Program (ARP). A uniform rate is set,

which is the percentage of the producer's base acreage that must be set aside for the crop year. In 1985 the diversion requirement rose to 30% of base acreage.

[22]The Food Security Act of 1985 authorized the Conservation Reserve Program (CRP) with the intention of removing 40-45 million acres of fragile crop land from production for a ten-year period. Payments by the government are based on individual bids by the producers. Over 10 million acres of wheat base acreage alone have been entered into this long term diversion program since its inception (Labson, 1994).

[23]The Farmer-Owned Reserve (FOR) is a long term storage program. A loan rate is established that provides a price floor, and loans are made against grains stored. In addition, the government pays the farmer a storage payment. Originally, the terms of the FOR required that grains be held for a minimum of three years, but the 1990 farm bill has relaxed this constraint and farmers may release FOR stocks at their discretion.

[24]The CCCC is required by law to accept certain commodities as collateral from program participants in exchange for a loan, repayable in nine months. The amount of the loan is equal to the number of bushels placed as collateral times the legislated loan rate. Within the nine month loan period, producers can pay back the loan plus interest and sell at the market price if they wish. The terms of the loan are non-recourse - that is, if the producer wishes to default on the loan, the grain held as collateral serves as payment in full. In general, the loan rate serves as a price floor, in that the CCC stands willing to purchase whatever amount is necessary to support the price at the loan rate. The loan rate has often provided an effective price floor for wheat; however, it is important to note that since 1988, the loan rate has been well under the market price

received by U.S. farmers.

[25]The Foreign Agricultural Service (FAS) Cooperative Market Development Program was initiated in 1955 as a result of a section of P.L. 480 passed in July of 1954 which authorized up to five percent of foreign currency generated by sales of U.S. agricultural products to be spent for market development for U.S. farm products. In 1985, the FAS provided $29 million, non-government producer and industry groups provided $35 million, and $29 million came from foreign third party participants. FAS coordinates farm-oriented groups which represent their commodity interests throughout the country or a major production area. These cooperators promote their commodities by working with foreign buyers in helping them choose the right U.S. product, and by creating a demand for products for which there is substantial sales growth potential.

[26]Budgetary stabilizers suppress unlimited intervention based on high-guarantee prices. The principle of budgetary stabilizers consists of determining maximum guaranteed quantities for nearly half the Community's agricultural production. If levels of production exceed the limit, the collective co-responsibility mechanisms intervene, thus limiting subsidies given to producers. The stabilizers were part of the general framework of budgetary discipline enacted in 1988 (Charles-Le Bihan, 1991).

APPENDIX

A FEW KEY DATES

9 Mar 1985	The Dooge Committee recommends the convening of an intergovernmental conference to negotiate a draft Treaty for European Union
29-30 Mar 1985	Brussels meeting of the European Council in which an agreement is reached on the integrated Mediterranean programs, thus facilitating agreement on the accession of Spain and Portugal
12 June 1985	The instruments of accession of Spain and Portugal are signed
14 June 1985	The Commission publishes its White Paper on completing the internal market, which gives details of the measures to be taken to remove all barriers between the Member States by 1992; it is welcomed by the European Council, meeting in Milan
28-29 Jun 1985	Milan meeting of the European Council in which a wide-range of discussions are held on the convening of an intergovernmental conference to draft a treaty on a common foreign and security policy and to draw up the amendments to the EEC treaty required for extending Community activities into new area
9 Sep 1985	First meeting of the Intergovernmental Conference on EC reform
2-3 Dec 1985	Luxembourg meeting of the European Council in which an agreement is reached on a reform of the Community's institutions designed to improve its efficiency and extend its powers are responsibilities, and to provide a legal framework for cooperation on foreign policy
16-17 Dec 1985	The above agreement is finalized in the form of a Single European Act by the Foreign Ministers meeting in the Intergovernmental Conference
1 Jan 1986	Spain and Portugal join the Community
17 and 28 Jan 1986	The Single European Act is signed by the Representatives of the governments of the 12 Member States
15-20 Sep 1986	In Punta del Este, Uruguay, Ministers of 92 nations agree to a new round of MTNs

15-16 Dec 1986	The Council agrees to amend its Rules of Procedure so as to facilitate majority voting
Dec 1986	London meeting of the European Council in which an agreement was reached in principle on the doubling of structural funds by 1993
15 Feb 1987	In its communication entitled, "The Single Act: A New Frontier for Europe," the Commission sets out the conditions for attaining the objectives of the Single Act with proposals for completing the reform of the CAP
July 1987	Single European Act (SEA) comes into affect
Dec 1987	Copenhagen meeting of the European Council in which an agreement on a reform budget for 1988 was not reached
Feb 1988	Brussels meeting of the European Council in which the system of price-stabilizers which were devised by the Commission was accepted, Delors Package on budgetary reforms accepted
April 1988	Presidential elections were due in France
21 Apr 1988	Council Regulation No 1094/88 is passed allowing for a set-aside program
24 May 1988	President Reagan vetoed H.R. 3 (The Omnibus Trade Bill). The House voted 308 to 113 to override the veto, Senate voted in June
Summer 1988	Drought reduced in the U.S., stocked surpluses
June 1990	EC Commission calls for institutional reform
Oct 1990	EC proposed a 30 percent cut in its internal agricultural supports
Dec 1990	Initial Commission "Reflections" on CAP reform was first leaked
Dec 1990	The Intergovernmental Conference on Political Union began in Rome
Feb 1991	Commissions's "Reflections" on CAP reform published

Jul 1991	Commissioners introduce new CAP reform ideas to farm ministers
May 1992	The EC Council decided on a major overhaul of the CAP

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