

## Linked games, international organisations and agricultural trade

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Veröffentlichungsversion / Published Version

Arbeitspapier / working paper

Zur Verfügung gestellt in Kooperation mit / provided in cooperation with:

SSG Sozialwissenschaften, USB Köln

### Empfohlene Zitierung / Suggested Citation:

Coleman, W. D., & Tangermann, S. (1998). *Linked games, international organisations and agricultural trade*. (MPIfG Discussion Paper, 98/8). Köln: Max-Planck-Institut für Gesellschaftsforschung. <https://nbn-resolving.org/urn:nbn:de:0168-ssoar-418581>

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## **Linked Games, International Organisations and Agricultural Trade**

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and  
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MPIfG Discussion Paper 98 / 8  
ISSN 0944-2073  
December 1998

### **Abstract**

Over the past decade, most OECD countries have begun to reform fundamentally their agricultural policies. Some dispute has emerged over the extent to which policy-making at the international level has triggered these reforms. These disputes raise important theoretical questions about how we theorize and test for the degree of interdependence between international, regional (EU), and domestic policy change. This paper offers the concept of autonomous, linked games as a possible theoretical route to follow, a route that also permits more systematic theoretical consideration of the role of international organizations in policy-making. We focus, in particular, on the European Commission and the GATT Secretariat. Drawing on these concepts, we argue that policy reform by EU member states was significantly shaped by proposals and outcomes in the international negotiations on agriculture during the GATT Uruguay Round.

### **Zusammenfassung**

Im Laufe des letzten Jahrzehnts haben die meisten OECD-Länder grundlegende Reformen ihrer Agrarpolitik in Angriff genommen. Die Frage, inwieweit politische Maßnahmen auf internationaler Ebene den Anstoß für diese Reformen gegeben haben, wird derzeit kontrovers diskutiert. Diese Diskussion wirft wichtige theoretische Fragen darüber auf, wie das Ausmaß der Interdependenz zwischen internationalen, regionalen (EU) und nationalen Politikänderungen theoretisch erfasst und empirisch bestimmt werden kann. Wir bieten das Konzept autonomer, miteinander verbundener Spiele als theoretischen Ansatz an, der zur Lösung dieser Fragen beitragen könnte. Dieser Ansatz könnte auch eine stringenter theoretische Analyse der Rolle internationaler Organisationen bei der Politikgestaltung ermöglichen. Der Schwerpunkt liegt insbesondere auf der Europäischen Kommission und dem GATT-Sekretariat. Auf der Grundlage unseres Ansatzes argumentieren wir, daß Politikreformen in den EU-Mitgliedstaaten in beträchtlichem Maße geprägt wurden von den Vorschlägen und Ergebnissen der internationalen Agrarverhandlungen während der Uruguay-Runde des GATT.

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## Introduction

Over the past twelve years, the special place of agriculture in the postwar embedded liberal order has changed fundamentally. The Uruguay Round Agreement imposed new international disciplines on agricultural policies worldwide.<sup>1</sup> During the same period, individual states and the European Union took steps to move their policies in a more liberal direction. Because the Uruguay Round negotiations and the domestic reform processes were occurring simultaneously, these policy changes raise questions about the relationship between international and domestic policy-making. Substantively, is policy-making at the international level constraining the policy-makers' choices of policy objectives and policy instruments at the EU and domestic levels? Theoretically, how might we conceptualize linkages between policy changes at the international and the domestic levels in order to assess best relative interdependence?

On the substantive side, Paarlberg has argued recently "that the Uruguay Round contributed little to the 1991-92 MacSharry Reforms at the EU end and almost nothing to the 1990 and 1995-96 reforms at the U.S. end" (Paarlberg 1997: 416). Patterson acknowledges that negotiations at the international level played a "small role" in the reform of the Common Agricultural Policy (CAP), but that long-standing domestic problems related to overproduction and budgetary costs were primary (Patterson 1997: 152). In contrast, Guy Legras, senior official in the agriculture directorate (Directorate General VI, DG VI) of the European Commission, saw the Uruguay Round as providing a confrontation between two opposing views of how to regulate agriculture (Legras 1993). Ultimately, the US view, supported by the Cairns Group, largely prevailed, with fundamental consequences for the structure of the CAP.<sup>2</sup> Delorme concurs, noting that the CAP reforms led to a certain harmonization of EU and US agricultural policy approaches under the GATT pressures (Delorme 1993, 1995).

In other words, there are two schools of thought on the relationship between CAP reform and the GATT negotiations. The first argues that the 1992 CAP reform occurred largely independently of the simultaneous international negotiations. Internal domestic problems related to budgetary constraints and oversupply of some commodities forced political leaders to consider fundamental reforms of the CAP. The second hypothesis does not deny the importance of these domestic

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1 For reviews of agriculture and the GATT (General Agreement on Tariffs and Trade), see Josling, Tangermann and Warley (1996) and Swinbank and Tanner (1996).

2 The Cairns Group was an unusual alliance of several high income countries (including Australia and Canada) and of a number of developing countries, all exporters of agricultural commodities, that was formed with the objective of seeking greater access to European and Japanese markets.

problems. It postulates, however, that the timing of CAP reform and the very logic of the reforms introduced represent direct responses to international pressures emanating from the GATT negotiations. We strongly subscribe to the second hypothesis and endeavor to show here that it explains the historical events much better than the rival hypothesis that CAP reform was undertaken mainly for internal reasons.

On the theoretical side, the problem of analyzing domestic-international relations in agriculture has sparked considerable usage of Putnam's two-level games model. Paarlberg sees it as providing "useful language", but criticizes it for not addressing the question of when national leaders have incentives to "internationalize" issues (Paarlberg 1997: 415). Patterson pursues much further the use of the model, and adapts it for an analysis at three levels (international, EU, member state), a step earlier taken by Moyer (Patterson 1997, and Moyer 1993). Their recourse to Putnam's theory is an obvious step because he was attempting to advance our understanding of international influences on domestic policy-making. His presentation, however, referred to situations where two conditions held. First, the same chief negotiators were playing in both the international and domestic games. Second, the international negotiations were strictly intergovernmental: international actors had no role in the model.

The events of 1986-1993 when international negotiations (Uruguay Round) were going on which were related, in turn, to an autonomous set of EU negotiations (CAP reform) represent a scenario that departs from both of these conditions. First, the games were more autonomous from one another, with only some overlap in players and with discussions focused on different issues. Second, international organizations - the European Commission and the GATT Secretariat - were key players at particular junctures in the discussions. Accordingly, we propose that situations like those found in EU agriculture and the GATT be analyzed as *autonomous, linked x-level* games. We hope to show that use of this theoretical framework can help to settle the substantive question of whether or not CAP reform was a direct response to the ongoing international negotiations in the GATT.

Highlighting the particular role of international actors is an additional advantage of conceptualizing agricultural negotiations as autonomous, linked games. International organizations are increasingly important actors in multi-country games. At a minimum, as regional economic cooperation develops and regional interests become expressed in international forums, it becomes more likely that intermediate or regional institutions will aggregate the preferences of players at the lower or domestic level. Over time, particularly with the continued development of international law, these institutions may also acquire additional institutional attributes that may make them actors in their own right. In a game theory framework, international organizations can be thought of as influencing the rules of the game,

by creating or eliminating certain types of moves available to the players, and by affecting the actual or perceived payoffs of alternative outcomes. Accordingly, we build on conceptions of international organizations as *mediators* and as *entrepreneurial leaders* as one way of integrating such organizations more systematically into theories of international-domestic policy-making.

These several arguments are developed in the following steps. We begin with a schematic presentation of the concept of autonomous, linked games and apply it to the agricultural negotiations. We follow immediately with a discussion of the presence of international organizations in multi-level policy-making. The first phase of our two linked games, the GATT game, is discussed next, with the win-set analysis highlighting the extent of the deadlock that existed when the GATT talks collapsed in Heysel, Belgium in December 1990. The analysis then turns to the dynamics of the second (CAP) game, underlining how the issues were constrained by the GATT negotiations and noting the crucial role of the Commission as an official player at both games and as an entrepreneurial leader. The successful resolution, in turn, of the CAP game alters the calculus in the GATT game, opening the door to a final agreement. After discussing this resolution briefly, we return to reflect a little further on the notion of linked games. Drawing from our analysis, we conclude with a tentative prediction about the dynamics of the upcoming WTO (World Trade Organization) negotiations on agriculture, providing a test for our hypotheses.

### **Autonomous, Linked Games**

The 1986-1994 scenario in agriculture might be briefly summarized as follows. A set of international (GATT) negotiations began which focused not only on border measures, but also on 'behind the border' domestic policies. Over the course of the negotiations from 1987 to 1990, a stalemate emerged that could be broken in one of two ways. Either the EU changed its domestic policy in line with international pressures, or the US yielded on a primary objective, reform of the CAP. Thus the international (GATT) negotiations had direct implications for a second, simultaneous but autonomous set of negotiations on CAP reform within the EU. The pressure from the stalemate in the GATT changed the relative evaluation of the payoffs from CAP reform among EU member states, ultimately opening the door to domestic (CAP) reforms. These reforms, in turn, changed the assessments of the costs and benefits of various solutions to the international stalemate, ultimately enabling it to be broken and agreement to be found.

This scenario is a complex one because it involves two sets of interconnected negotiations, both involving multiple levels: GATT/EU/Domestic in the first, EU-



Domestic in the second. Neither fits very well with present theories of two-level games (Putnam) or nested games (Tsebelis). In Putnam's scenario, there is one two-level game only, with the same set of chief negotiators playing at both levels and an essentially identical set of issues on both game tables (Putnam 1988). Tsebelis's notion of nested games comes closer, but the CAP negotiations are not "nested" within the GATT discussions in a strict sense because the GATT does not determine the rules for the CAP game (Tsebelis 1990). In fact, the complexity of the scenario is such that some might conclude that an informed narrative will furnish a better understanding of the ultimate outcomes than any attempt at theorizing these processes.

There is some merit in this conclusion, and below we shall indeed present our theory of decision-making in this particular set of autonomous, linked games in the framework of a narrative. However, game theory can provide a useful road for theoretical development and we shall first travel this road for a while, well knowing that game theory requires us to compress a highly complex reality into a fairly stylized model and to work with assumed payoffs which are not empirically estimated at this stage.<sup>3</sup> Scharpf observes that the fundamentals of game theoretic thinking can be summarized in two concepts: strategic interaction and equilibrium outcomes. These concepts provide the basis for what he calls "counterfactual thought experiments" for exploring various possible outcomes of strategic interaction. Accordingly, we propose the use of game theory to isolate what appear to be the core dynamics of the interactions between the two sets of negotiations. Naturally, since the events we analyze have already taken place, it is difficult to falsify our hypotheses. Instead, we use the analysis to offer some predictions about how future negotiations involving the WTO and the EU will proceed, and these predictions, together with the theory on which they are based, may or may not be falsified by future reality.

The processes of agricultural policy reform at the international level and in the EU from 1986 to 1994 can be characterized as two *autonomous, linked* games. By autonomous, we mean that each game involves different sets of actors playing under distinct sets of institutional rules, addressing separate policy problems. These games are linked because there is important overlap in the actors involved and the equilibrium outcomes in each game affect the relative payoffs in the other. In formulating these games in simplified form, we also take advantage of two common aspects of strategic interactions. Collective actors often organize themselves into *coalitions*, and the political process normally focuses on a *limited number* of alternative policy options at any given time. In reality, both games involved multiple levels (international, EU, and member states in the GATT game; EU and member

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3 For an example of a game theory analysis of agricultural trade negotiations using empirically estimated payoffs, see Kennedy, von Witzke and Roe (1996).

states in the CAP game). However, as we want to emphasize the *linked* nature of the two games to limit the complexity, we shall present here only one level for each of the two games: the international level (US against EU) in the GATT game and the EU level (liberal against protectionist member states) in the CAP game. We shall work with matrices of ordinal ranked payoffs in both games, indicating the preference ordering of the alternative outcomes for the respective players.

As the subsequent bilateral agreements made at Blair House in Washington in November 1992 would show, the outcome of the GATT agricultural negotiations depended on whether the US and the EC positions could be reconciled. Accordingly, we focus principally on the US and the EC in the GATT game. Table 1A summarizes the respective relative payoffs at the negotiations that took place in Heysel, Belgium in December 1990. In the discussion that follows, we demonstrate that the best compromise position available, the proposals from Hellström, the Swedish agriculture minister, were unacceptable to the EC. In light of the payoffs from other options, the (Nash) equilibrium position becomes a breakdown in the talks, sparked by the EC's refusal of the proposals. Over the same period, there was also an ongoing debate in the EC about further reform of the CAP. A small group of "liberals" (the UK, Denmark, The Netherlands) were ready to reform the CAP profoundly in order to facilitate the international discussions. The majority of the states, however, preferred the CAP as it stood and would only countenance those changes consistent with the existing structure of the policy. We will show that the equilibrium position in this CAP game ends up in no reform, with the liberals and the protectionists having opposing views on the direction of policy change (see Table 1B).

The collapse of the GATT talks at Heysel put tremendous pressure on the EC to reform the CAP, in fact, forcing the protectionist coalition to reconsider the relative payoffs of a liberalizing reform. At this point, the leadership of the European Commission becomes particularly important because it has to craft proposals that make reform sufficiently attractive for the protectionist coalition that its members can potentially alter their evaluation of payoffs in the GATT game. By July 1991, the Commission had developed proposals that created the possibility of such a change in the payoffs for the protectionists. As Table 1C suggests, liberalizing reforms become the new equilibrium position in this game. Once CAP reform is agreed in May 1992, the potential for a new equilibrium in the international negotiations between the EC and US is created (see Table 1D). Reaching this equilibrium position, however, requires both further leadership by the Commission and a willingness to compromise by the US. Final agreement was not to come until December 1993.

**Table 1 Two Actor Payoff Matrices, GATT and CAP Reforms<sup>a</sup>**

Table 1A Before CAP Reform, the Hellström GATT Proposals

		US Agrees	US Disagrees
EC	Agrees	1,4	2,1
	Disagrees	4,3 (equilibrium)	3,2

Table 1B CAP Reform before the collapse of GATT negotiations at Heysel

		<i>Protectionists</i>	
		Path Dependent Change	Liberalizing Reform
<i>Liberals</i>	Path Dependent Change	1,4	2,2
	Liberalizing Reform	3,3 (equilibrium)	4,1

<sup>a</sup> Payoffs are ordinal rankings from 4, highest payoff, to 1, lowest payoff. The first number is the payoff for the player on the row, the second for the player on the column.

Table 1C CAP Reform after the Commission's July 1991 Proposals

		<i>Protectionists</i>	
		Path Dependent Change	Liberalizing Reform
<i>Liberals</i>	Path Dependent Change	1,4	2,2
	Liberalizing Reform	3,1	4,3 (equilibrium)

Table 1D GATT Negotiations after CAP Reform

		US Agrees	US Disagrees
		EC Agrees	3,4 (equilibrium)
EC Disagrees	1,3	2,2	

The shifts in relative payoffs in the two games illustrate what we mean by autonomous, linked games. Reaching an equilibrium in one game creates potentially new assessments of payoffs from policy reform in the other. But the games are autonomous from one another. The US is not a player in the CAP game, and the member states of the EU are not direct players in the GATT game.

Moreover, both games involve international actors who have an autonomous impact on the outcomes. In the GATT, the Director-General and the Secretariat set the agenda for the negotiating parties and then mediate further discussions. Institutional arrangements in the EU also make it possible for the Commission to act as an entrepreneurial leader by crafting policy proposals that enable member states to see more clearly the potential changes in payoffs in the respective games. These roles are ones that are not well theorized in games analysis. We consider them next before proceeding to analyze the history of the agricultural negotiations.

### **International Organizations and Multi-level Policy-making**

Putnam's original formulation of the two-level game was strictly intergovernmental: chief negotiators represented nation-states. Subsequent research has emphasized that these chief negotiators may have more autonomy and influence than originally presumed, particularly at the outset of negotiations.<sup>4</sup> It has also improved our understanding of chief negotiators' strategies, for example, when it is useful to act as an agent, or as a dove, or as a hawk (Moravcsik 1993: 30–31). Moving outside the Putnam model somewhat, Moravcsik developed a theory of liberal intergovernmentalism that he applied to the study of policy-making in the EU (Moravcsik 1991, 1994). Here, of course, he came face to face with EU-level organizations – the Council of Ministers, the European Court of Justice (ECJ), the European Commission, and the European Parliament (EP). The first of these is not a difficult problem because it remains essentially an intergovernmental body, albeit one that uses increasingly a qualitative majority decision-making rule.<sup>5</sup> The EP is growing in influence, but has yet to get significantly in the way of the

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4 See the discussion in Evans (1993).

5 Much of the theory of intergovernmentalism is based on the assumption of a unanimity or consensus decision-making rule. Moravcsik (1994) tries to keep within the intergovernmental framework by arguing that adopting qualified majority voting results from a cost-benefit analysis of the stream of future substantive decisions expected to follow from alternative institutional designs. National governments accept to be outvoted or overruled on any individual issue in exchange for more efficient collective decision-making on the average.

Council and the Commission, particularly when the two act in concert. The ECJ and the Commission, our principal focus, however, fit less easily into an inter-governmental framework.

Moravcsik argues that supranational organizations like the Commission exist to increase the efficiency of inter-state bargaining. In addition, they may help enhance the autonomy of negotiating parties from domestic interests by augmenting the legitimacy and credibility of common policies. Accordingly, decision-making in the presence of such supranational organizations should still tend toward the position of the most strongly opposed member state.<sup>6</sup> More recently, rational choice institutionalists have sought to allow for more supranational autonomy. They have drawn upon the concept of an agenda-setter developed in studies of the activities of committees of the US Congress (Pollack 1997). In this view, member states delegate authority over the agenda to the Commission with a view to lowering the transaction costs of cooperation and thus increasing the likelihood of solving some collective action problems. Pollack (1997: 121) distinguishes between formal agenda-setting, which derives from a formal delegation of procedural prerogatives, and informal agenda-setting where a supranational organization takes advantage of information asymmetries and its own expertise to set the “substantive agenda” for nation-states. In both situations, the supranational organization gains an important measure of autonomy from the delegating nation-states.

Those working more in the historical institutionalist tradition argue that the rational choice view still undervalues the independent capacity of the Commission as a supranational organization. Smyrl (1998) notes that the Commission has the capacity to change the very preferences of the member states over time. In game theoretic terms, such a change in preferences can actually change payoffs and hence lead to a new equilibrium position. This capacity cumulates into even more power when agenda-setting powers can be used to impose a deadline for reaching a decision (Smyrl 1998: 94). Schmidt (1997: 9–10) stresses further that supranational law furnishes the Commission with certain legal prerogatives that give it a measure of additional autonomy. She cites as a key example the Commission’s responsibility to act as guardian of the Treaties. In acting on these responsibilities, the Commission again can reshape the strategies of member states, creating the possibility of adopting policies devised by the Commission itself and never really considered by member states.

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6 This statement presumes a unanimity decision-making rule. If the rule changes to qualitative majority decision-making, a given minority of member states can block decisions.

In order to take account of these theoretical developments and associated recent empirical findings, we propose to distinguish between international organizations as mediators and as entrepreneurial leaders.<sup>7</sup>

We see a mediator as a supranational organization that has the power to propose an agreement to the players in the game, by drawing on formal agenda setting responsibilities and on its own expertise and analysis of win-set compatibilities and incompatibilities. Since this mediator also represents an international organization, which may have its own expertise and informational advantages, we expect that this organisation will continue to play a role in the negotiating process. Consequently, the proposed agreement could depart somewhat from the position of the most recalcitrant member state, the international organization being bound to make proposals consistent with its institutional mandate and mission. We show below that the GATT Secretariat acted as an international mediator in at least one key stage of the GATT game.

In contrast, an *entrepreneurial* leader will have institutional attributes that enable it to propose and argue for agreements that go significantly beyond the position of the most opposed member state.<sup>8</sup> They have sufficient capacity to reshape the preferences of member states, all the while taking advantage of procedural rules and information asymmetries to push their own preferences. Key attributes supportive of such a role include formal agenda-setting powers, access to its own knowledge and expertise independent of negotiating states, a legal mission anchored in supranational law to support the interest of the supranational unit, an independent ability to fashion side-payments, and a capacity to act cohesively. These latter three qualities permit the international organisation to play the role of informal agenda-setter as outlined by Pollack and to exercise leadership throughout the negotiating process.

The European Commission has enough of these attributes to act as an entrepreneurial leader. Admittedly a complex organization because it acts both as an administrative body and an executive college (Cram 1994: 198), it nonetheless develops its own knowledge and expertise and is the principal repository of information about the impact of Community practices. Although its bureaucracy is smaller than that of any of the member states, the Commission still has "a sizable

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7 For an extended analysis of whether the Commission should be viewed as a facilitator of intergovernmental processes or as an institution exercising leadership that takes policy-making beyond intergovernmental solutions, see Vahl (1996).

8 See Vahl (1996). Vahl uses the concept of entrepreneurial leadership to refer to the Commission's capacity to go beyond the intergovernmental, lowest common denominator, solution. It is developed at length in his first chapter. Vahl's use of the term is similar to that of Young (1991).

staff with impressive (if unevenly distributed) professional capabilities for rule-making and enforcement" (Peters 1992: 86). Over the years, those selected as Commissioners have tended more and more to be politicians with significant policy experience and political prestige. Important to this study in particular is the fact that the Commission has built up considerable expertise in the rules and procedures of the GATT (Hayes 1993: 35).

The Commission also has important formal agenda-setting powers, anchored in Community law. Article 155 of the Treaty gives the Commission considerable room for launching new initiatives, particularly through the mandate that the Treaty be properly applied and developed (Nugent 1995: 605). As noted, on most matters, the Council can take decisions only on the basis of a Commission proposal, and can amend (but not substitute its own text for) Commission proposals only unanimously (Article 189a). Article 113 clarifies that this power of the Commission applies to the Common Commercial Policy. In international negotiations, when agreement on a proposal is reached, the Council will then authorize the Commission to open negotiations (Hayes 1993: 35). In acting on the Community's behalf, the Commission is the sole negotiator of the EU and has some discretion and room to manoeuvre (Vahl 1996: 24–27). Finally, its constitutional status enables the Commission to bring to policy-making a vision of the economic union as a whole and of overall economic welfare. In a situation of linked games, where the Commission sets the formal and informal agenda for the CAP game and negotiates for the Community at the GATT game, additional flexibility will come from the opportunities to manipulate one game to affect the other.

Activities in a broad set of policy areas provide the Commission with a capacity to offer side-payments to member states at key points in policy bargaining. That said, it is not always able to act as a cohesive body. Different directorates have their own cultures, their mandates frequently overlap promoting bureaucratic competition, and commissioners themselves can be torn between the interests of the Union and their respective member states. In agriculture, however, Directorate General VI has a long history and considerable expertise. And the Agriculture Ministers meeting in the Agricultural Council have a legendary ability to protect and defend farmers' interests. The General Affairs Council composed of trade ministers and ministers of foreign affairs had overall responsibility for the GATT negotiations, but tended to defer to the Agricultural Council and its expertise in the agricultural sector (Moyer 1993: 102). This deference allowed the Commission to act more or less cohesively during the agricultural negotiations of the GATT.<sup>9</sup>

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9 This is not to say that there were not tensions. In the first phase of the GATT negotiations, Frank Andriessen, the Trade Commissioner, consistently favoured a more liberal position than Roy MacSharry, the Agriculture Commissioner. Andriessen was in a unique position because he was the previous Agriculture Commissioner. We shall also



In contrast, the GATT Secretariat and its Director-General, representing an inter-governmental institution, were constrained to the role of an international mediator.<sup>10</sup> In purely legal terms, the GATT never had a secretariat, and the persons working in what used to be called the GATT Secretariat were borrowed from an Interim Commission of the International Trade Organization, an organization that was never actually established. The functions of the Director-General, whose title and role have also never been defined in the General Agreement, “have developed empirically, influenced largely by the actions of the incumbent” (Long 1985: 52). One of the incumbents has described the three main tasks of the Director-General to be guardian of the General Agreement, conciliator among the member countries, and manager of the secretariat (Long 1985: 53). During the Uruguay Round, the Director-General (Arthur Dunkel for most of the time, in the final stages Peter Sutherland) also acted as chairman of the highest-level negotiating body, the Trade Negotiations Committee, when it did not meet at the ministerial level, and as chairman of the Group of Negotiations on Goods, the next highest level in the hierarchy of the negotiations (Croome 1995). In this role, the Director-General, supported by the Secretariat, had *de facto* some formal agenda-setting powers and could confront the negotiators with the issues and choices. However, it had insufficient expertise and informational autonomy to act as an informal agenda-setter. Normally countries were expected to submit proposals, and the Secretariat circulated them among the negotiating parties, often along with background documents summarizing the issues and options.

After the breakdown of the negotiations in December 1990, however, Dunkel’s role was strengthened when he was asked by the negotiating parties “to pursue intensive consultations ... with the specific objective of achieving agreements in all the areas of the negotiating programme in which differences remain outstanding” (Croome 1995: 279). The role of the Director-General became particularly important in agriculture because Dunkel also took over the chairmanship of the agriculture negotiating group. He had to “travel and talk endlessly with governments, individually and in broader consultations, in order to gauge their intentions and minimum needs, as the basis for his own proposals” (Croome 1995: 285). These proposals emerged in the December 1991 “Draft Final Act” of the Uruguay Round that foreshadowed the content of the eventual agreement. In spite of the influential role which the GATT Director-General played in the Uruguay Round, however, his powers in the GATT negotiations did not permit the policy leadership that was to characterize the activities of the Commission in EU decision making, if only because these were not anchored in supranational law.

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note that it took intervention by the very highest levels of the state in France and Germany to break the stranglehold of the agriculture ministers on the EU negotiating position, intervention that took place in the second phase of the GATT game.

10 The WTO did not yet exist during the Uruguay Round negotiations, which resulted, among others, in the establishment of that Organization.

### **The GATT Game Phase 1: 1986 to 1990**

In this section, we endeavour to map out the win-sets for the GATT game in its first phase, showing why the deadlock summarized in Table 1A ensued at the GATT ministerial meeting of December 1990 in Heysel (Belgium). In order to carry out this analysis, we show how the opening US proposal in July 1987 represented a frontal attack on EC agricultural policies. The EC responds suggesting an agreement to “manage” trade, followed by a global approach to reducing support. In light of the bargaining that followed these opening positions, we then present an analysis of win-sets that highlights the extent of deadlock that occurred in Belgium in December 1990.

#### *Preliminary Positions*

With its exports falling, the US felt a need to regain markets lost to the EC and targeted the end of EC export subsidies as the means to this goal. In March 1985, the Foreign Trade Ministers of the EC reluctantly agreed to enter a new GATT Round, but cautioned that the agricultural negotiations could not be limited to a discussion of export subsidies. From the outset, France sought to ensure that the Ministerial Declaration opening the round make no specific reference to removing or even reducing export subsidies (Woolcock and Hodges 1996: 307). The EU Council of Foreign Trade Ministers added that the “Council is determined that the fundamental objectives and mechanisms both internal and external of the CAP shall not be placed in question” (Vahl 1996: 76). In August 1986, the Cairns Group, an unusual alliance of several high income countries and a number of developing countries, all exporters of agricultural commodities, was formed with the objective of seeking greater access to European and Japanese agricultural markets (Croome 1995: 30–31). Although the Punta del Este Declaration opening the round did not mention specifically export subsidies, its long, surprisingly detailed statement on agriculture did say that “negotiations shall aim to achieve greater liberalization in agriculture and bring all measures affecting import access and export competition under strengthened and more operationally effective GATT rules and disciplines.”<sup>11</sup>

Almost immediately, therefore, the European Community was on the defensive in protecting the CAP. This defensiveness in agriculture, however, coexisted with many member states’ decided interest in liberalized trade in other parts of the economy. Most of the smaller states such as The Netherlands, Belgium and Denmark had long had open economies and relied heavily on trade for economic growth. Germany’s postwar economy was built around high value-added ex-

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11 The declaration is contained in an annex to Croome (1995: 387).

ports, and France had emphasized a *vocation exportatrice* in agriculture since the onset of the Fifth Republic. The interest in an overall GATT agreement was to permit the Commission to employ what Schmidt (1997: 20–22) has described as a “preventing worse” negotiating strategy.

In its opening statement on agriculture in the Uruguay Round, in July 1987, the US evinced a clear market-oriented position.<sup>12</sup> It called for a freeze on export subsidies, a policy instrument central to the French support of the CAP (Woolcock and Hodges 1996: 307), followed by their complete phasing out over a set period of years. It demanded the end of all trade distorting domestic subsidies (which would include the EC price support system) and of all import barriers (and thus the EC variable levy regime). It stressed the need to improve market access (thus targeting the “Community Preference” in the EC) and for an end to quantitative import restrictions. Finally, it asked for a strengthening of dispute settlement and enforcement processes, including improved arrangements for assuring compliance. Although agriculture’s share of world trade had shrunk from one half to one tenth over the 40 years from 1948, agriculture continued to account for about one-half of all GATT disputes (Croome 1995: 105).

With the CAP so obviously in the sights of the US, the EC countered with a different perspective. Negotiations should be focused on reducing instability in world markets, following a “global approach”, one that focused on all aspects of support, and not principally on exports (Legras 1993: 326). The parties to the GATT should look to develop an agreement that would “manage” international markets in cereals, cereal substitutes, sugar and dairy products (Ingersent, Rayner and Hine 1994: 61). Once stability was restored, then the parties could proceed to reduce domestic support and external protection over a broad range of commodities. Preference for managed international markets had a long history in the EC. One of its more recent indications was the EC’s attempt at establishing tacit agreement with the US in the early 1980s that the EC had a claim to 14 per cent of the world wheat market. From the EC perspective, the US and the Cairns Group did not understand or chose not to understand the implications of the EC position. With such a “global” approach, there would be no need to single out export subsidies for special attention because “an undertaking to reduce internal support would automatically lead to a cut in production, followed, in turn, by a drop in exports.”<sup>13</sup> The Community’s trading partners worried, however, that the global approach would permit too much manipulation of domestic policies, thereby preserving the essential aspects of the CAP.

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12 The following presentation of the US position is taken from Hillman (1994: 35–36). On the negotiating positions of major countries and their development during the Uruguay Round, see also Josling, Tangemann and Warley (1996).

13 Paemen and Bensch (1995: 168). Both these authors worked for the EC during the Uruguay Round.

*Towards Deadlock: Win-Sets Analysis for Phase 1*

The record of events that followed the opening statements leading to the failure of the Mid-Term Meeting in Montreal and then the collapse of negotiations altogether in Heysel has been well documented and need not detain us here.<sup>14</sup> The politics of the negotiations, however, do affect how one chooses to analyze win-sets. The US and the Cairns Group insisted on negotiating separate commitments on export subsidies, domestic support and market access. The EC resisted, arguing that a global approach to negotiations would accomplish the same thing, without forcing the parties to negotiate policy by policy, detail by detail. Its refusal to negotiate separate commitments, and in particular, commitments on export subsidies, was one of the crucial factors leading to the collapse of negotiations in Heysel. The final agreement, of course, did contain separate sub-sections and country-specific commitments on the three areas.

Accordingly, we will examine separately the apparent win-sets in these three areas, all the while remaining quite conscious of Putnam's point that tradeoffs between issues may affect respective win-set sizes (see Putnam 1988: 446–448). The examination is based on an analysis of the 1987 opening positions, further positions taken in 1989, the final negotiating statements for the Heysel meeting provided in late 1990, and the Hellström proposal made at the height of the Heysel negotiations.<sup>15</sup>

The opening position of the US on *export subsidies* sought a 100 per cent reduction over a period of 5 years. Going into the Heysel conference, this position had shifted slightly to a 90 per cent reduction, implemented over 10 years. The Hellström proposal offered a 30 per cent reduction in volume of subsidized exports over 5 years, using a 1988–1990 base. Given that the US expressed interest in this proposal, we conclude that the win-set on the US side was quite large, ranging from complete elimination to a 30 per cent reduction in volume. The EC refused to make a direct, separate offer on export subsidies. Its final 1990 position was a reduction in domestic support of main products by 30 per cent by 1995, from a 1986 base. It added that “the proposed reduction of support and protection will lead to a considerable reduction of export subsidies” and stated that the EC was

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14 For histories of the negotiations, see Croome (1995), Paemen and Bensch (1995), and Stewart (1993). For the agricultural negotiations, see Josling, Tangermann and Warley (1996). The collection of essays in Ingersent et al. (1994) plus the systematic historical analysis of Vahl (1996) provide useful supplements that furnish additional detail on the agricultural negotiations specifically.

15 Hellström, the Swedish agriculture minister, chaired the negotiating sessions and made a last-ditch proposal to reach an agreement. It received the support of the US and the Cairns Group, but was not acceptable to the EC. A summary of the proposal is found in Paemen and Bensch (1995: 244–245).

“ready to quantify the results [for export subsidies] flowing from the reduction in internal support.”<sup>16</sup> The EC never went as far, however, as quantifying the implications for export subsidies. In fact, based on our own calculations, EC exports would have declined by more than required by the Hellström proposal (see below), though this may not have been seen clearly by negotiators at the time. Acting in its entrepreneurial leader role, the EC Commission expressed interest in the Hellström offer, but demurred at the 1988–90 base.<sup>17</sup> We conclude that the win-sets of the US and the EC, as seen by negotiators, moved closer to possible overlap in the Heysel meetings, but in the end an important gap remained.

From 1987–1990, potentially overlapping win-sets on issues of *market access* were created, but gaps still remained to be bridged in the end. The opening position of the US in 1987 was “to phase-out import barriers over ten years”. Later in the negotiations, the US had proposed that all non-tariff barriers (NTBs) to trade, including instruments like the variable levy, be converted into tariffs (“tariffication”), bound against increase, and then reduced over a specified period of time. Thus the US proposal in 1990 called for a 75 per cent reduction in tariffs over a 10 year period beginning in 1991–92. Fearing that the tariffed NTBs would still remain prohibitively high for the EC and other states, the US also demanded that states establish a minimum access level of 3 per cent of the domestic market, expanding to 5.25 per cent over 10 years.

By 1989, the EC was “prepared to consider ... elements of tariffication”, with some important qualifications. It wanted to transform NTBs into a hybrid form of tariffs, consisting of a “fixed component” and a “corrective factor” (a provision to allow states to offset world market fluctuations and exchange rate movements). Its 1990 offer did not contain a specific figure for reduction of the fixed component, but said that tariffs would be reduced in parallel with the cuts in price support required to achieve the proposed reduction of domestic support by 30 per cent. More important, this offer was made contingent on its GATT partners agreeing to “rebalancing”. The EC proposed to replace the duty-free or near duty-free admission of oilseeds, oilseed products, and cereal substitutes with tariff quotas based upon existing import levels.<sup>18</sup> In the Hellström negotiations, the

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16 Cited in Josling, Tangermann and Warley (1996: 155).

17 France and Ireland were furious that the Commission had expressed to Hellström a willingness to negotiate export subsidy reductions as a separate item. See Vahl (1996: 150). The Commission here and at other points in the Hellström negotiations clearly went beyond the lowest common denominator position as expressed in the official 1990 negotiating position, and effectively played the role of an entrepreneurial leader.

18 In the Dillon (1960–62) GATT Round, the EC had agreed that tariffs on feed grain cereal substitutes and oilseeds be at zero or at low levels. These imported products

Commission exercised leadership in offering “partial” rebalancing – withdrawal of the demand for oilseeds – and a market access guarantee of 3 per cent. Given that rebalancing in any form was unacceptable to the US (or to the Cairns Group) and that the difference between the US figure of 75 per cent tariff reductions and the implicit EC figure was obviously significant, again we conclude that the win-sets did not overlap.

The potential for overlapping win-sets was highest in the area of *reductions in internal support*. After more widely diverging views in the earlier stages of the negotiations, the US and the EC agreed in their 1990 proposals that an aggregate measurement of support (AMS) should be used to define commitments; that commitments should be product-specific; and that a fixed external reference price (rather than the highly variable actual world market prices) should be used in calculating the AMS. The proposals differed somewhat on some other less important points, but mainly on the rates of reduction: the US suggested a 75 per cent cut from the 1986–90 base, whereas the EC was not prepared to go beyond a 30 per cent reduction from a 1986 base. In their reactions to the Hellström proposal for a 30 per cent cut from the 1990 base (which would have required larger reductions than the 1986 base), both the US and the EC showed signs of being prepared to consider it as a basis for a compromise. Thus it appears that on domestic support, the win-sets had moved very close to each other, if not reached a marginal overlap.

As Table 1A indicates, a deadlock resulting from the US willingness to accept Hellström, while the EC refuses, is our expected equilibrium outcome. The best payoff for the US, but the worst for the EC, would have been agreement on Hellström. Why we order the payoffs in this way may not be immediately clear. It follows from the “counterfactual thought experiment” of what would have happened if the US had agreed to the EC proposals of November 1990. We have made an estimate of their effects, based on a model of EC agricultural markets.<sup>19</sup> In this model we reduced EC price support as much as needed to meet the 30 per cent reduction of AMS offered by the EC.<sup>20</sup> At the same time, we implemented rebalancing as requested by the EC. Under these conditions, EC exports would have gone down significantly. For example, from 1990 to 1995, EC exports of cereals would have declined by 50 per cent<sup>21</sup> and exports of butter and cheese

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had taken an important share of the feed grain business for EC livestock, at the expense of the EC’s own cereals producers.

19 Data are drawn from the use of the ESIM model available to the authors.

20 For milk we have assumed that the AMS reduction would have been achieved by a combination of a quota cut (one half of the AMS reduction) and a price reduction.

21 A significant part of this reduction in cereals exports would have resulted from rebalancing, which would have raised prices of non-cereal feeds significantly and thereby boosted feed demand for cereals in the EC.

would have disappeared altogether. In order to reach the reduction of support it had offered, the EC would have had to cut price support significantly. For example, cereal prices in the EC would have had to be reduced by nearly ten per cent between 1990 and 1995.<sup>22</sup>

Such price reductions would effectively have amounted to significant CAP reform, but a reform directly and obviously forced by the GATT. We thus ranked any agreement by the EC to Hellström, the proposal closest to the EC offer of 1990, as providing the lowest payoffs in Table 1A. Such an agreement would have created considerable political turmoil because it would have been a transparent surrender of sovereignty over domestic policies.<sup>23</sup> Commissioner MacSharry may well have appreciated this difficulty, and decided that it would be best if the EC offer were not accepted at this moment, leaving him time to reform the CAP domestically before agreeing on reductions in the GATT (Tangermann 1998). Fortunately, the EC offer was unacceptable to the EC's negotiation partners anyway because it included rebalancing.

### **The CAP Game**

The analysis of the first phase of the GATT game shows that the EC win sets were systematically smaller than those of the US (or its trading partners). A review of the positions of member states helps explain why these win-sets were small and provides an insight into positions taken in the CAP negotiations. In a suggestive analysis, Delorme argues that EC member states brought three points of view to the Uruguay Round (Delorme 1993: 5–6). First, the United Kingdom, The Neth-

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22 This price cut would have had to come on top of the price reductions the EC had already implemented after 1986 (the EC proposal implied credit for support reductions already achieved after the base period).

23 Our ranking of the remaining outcomes is explained as follows. If there were no agreement between the EC and the US, then it would be best for the EC to have said no, while the US said yes. The Commission would then be seen as defending the CAP and standing up to the Americans, thereby enhancing its legitimacy with the member states. For the US, the best outcome would have been an agreement. It would have gained the commitment on export subsidies it sought, CAP reform would have been forced on the EC, and the overall GATT Round would have been concluded with the US retaining the initiative. If there were no agreement, then it would be best to have agreed while the EC disagreed, with the blame then falling on the EC. The worst outcome would have been no agreement because the US refused while the EC agreed. The US would then have lost the initiative and would have been blamed for delaying the overall GATT round, thereby undermining an important international institution and movement toward peace in international economic relations.

erlands and usually Denmark had more liberal points of view, were committed to economic openness, and saw significant advantages in a broadened GATT agreement. The Netherlands and Denmark had large livestock sectors and less cereals production, and thus were of mixed minds about rebalancing, while the UK suggested moving off rebalancing altogether (Vahl 1996: 100).

Second, France was the strongest supporter of the CAP as it stood, and had the smallest win-set. It benefited greatly from the Community Preference, countenanced no controls on volumes of exports, and viewed the US proposals as simply an attempt to reduce the EC, and particularly, the French shares of world markets. During this period, Ireland followed the French position very closely. Third, Germany, and to varying degrees the remaining member states, sought to minimize policy changes that might harm their heterogeneous farm sectors, with high numbers of small holdings. Their domestic farm organizations did not want significant changes to the CAP. For these reasons, we place the UK, The Netherlands, and Denmark in the liberal coalition in Table 1B and the other states in the protectionist group.

If we assume a consensus decision-making rule, then the French position alone would restrict the Commission's win-set greatly. If we consider the qualified-majority decision-making rule (the Commission tended to think in these terms, although many of the member states did not), again the Commission had little room to maneuver. The three liberal states did not have enough votes to force reform, but France, Ireland and Germany could constitute a blocking minority if attempts were made to liberalize the CAP. So again defence of the CAP becomes the Community position.

Given that reforms of the CAP that preserved its fundamental characteristics were consistent with the protectionists' position in the GATT, we rank the payoff from such reforms to be highest for the protectionists and lowest for the liberal states (see Table 1B). The reverse ranking would be associated with a liberalizing reform. Moreover, if no agreement is reached, each party would want to be seen as having at least pursued its preferred option. Prior to the collapse of the GATT, therefore, the equilibrium in Table 1B is a policy stalemate on CAP reform, with the liberal states publicly promoting a significant shift in policy and the protectionists wishing to preserve the structure of the CAP.

On the 11th of December 1990, five days after the collapse of the GATT negotiations, Ray MacSharry, the EC Commissioner for Agriculture, announced that the Commission would be bringing forward "revolutionary changes" to the CAP (Vahl 1996: 166). A day before, December 10, the press had reported that Chancellor Kohl and President Mitterand had indicated that a new proposal on export subsidies would need to be made by the EC (Vahl 1996: 150). Pressure from in-



dustry had begun to build on the German government to get the GATT moving almost immediately after the general elections of December 2, 1990. The Commission also had internal reasons to think about reform. By early 1991, partially due to the integration of the German Democratic Republic into the EC, it knew that expenditures were likely to exceed budget guidelines by 1992. In addition, markets in cereals, milk, beef, sheepmeat, tobacco, protein crops and wine faced growing oversupply. None the less, the Commission would have had time to follow its usual pre-proposal process of informal consultation and discussion before making formal proposals. That it chose not to follow the usual process shows the intensity of pressure from the GATT to change the Common Agriculture Policy.

As our hypothesis summarized in Table 1C suggests, the pressure from the GATT game altered the dynamics of the payoffs for the protectionist coalition. A liberalizing reform becomes a second-best solution, while continuing to resist change is fraught with problems: the whole GATT process might fail and the political divisions within the Community conceivably could severely weaken it in international forums in the future.<sup>24</sup> At this point, the entrepreneurial leadership of the Commission becomes crucial. It needs to change the preferences of the protectionist group and to devise a proposal that both fits those preferences and alters the payoffs in the GATT game. This scenario has some similarities with Schmidt's "prevent the worse" situation: the Commission seeks to shift preferences by pointing out that the outcome of Table 1B could lead to a collapse of the overall GATT round.

Table 2 summarizes several possible approaches that might have been used to address the internal problems of the CAP and the external GATT constraint. The protectionists' preferences came closest to the autarkic solution. It followed in the tradition of the "successful" programs in dairy and sugar, while minimizing changes to the overall structure of the CAP. It also would have continued and intensified an approach adopted by the EU in 1988, whereby producers who voluntarily agreed to set-aside productive lands in exchange for direct payments were a means to address the problem of surplus cereals production. In controlling supply through set-aside for cereals and oilseeds, the Community would have been able to reduce its export subsidies significantly. Unfortunately, as Table 2 indicates, the solution would not have broken the stalemate in the GATT and contradicted the Commission's interest in overall economic welfare.

The "liberal" solution of letting markets determine prices, and thus supply and demand, would certainly have been compatible with GATT disciplines, solved EC budget difficulties, and produced maximum welfare for the economy. But it was too radical for the protectionist coalition and thus would not have produced

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24 We have kept the ranking of outcomes for the liberals the same as in Table 1B.

**Table 2 Potential Solutions to the CAP Game: Characteristics**

Solutions	<ul style="list-style-type: none"> <li>• Prices</li> <li>• Supply Controls</li> <li>• Aids</li> </ul>	Economic Rationality: Overall Welfare Effect	Impact on EC Budget	Economic Rationality: Overall Welfare Effect	Level of Export Subsidies	Compatibility with Market Access Requirements	Compatibility with Domestic Support	Political Support Base at Beginning of Game or Tabling of Proposal
Pure Liberal	<ul style="list-style-type: none"> <li>• Market prices</li> <li>• No controls</li> <li>• No aids</li> </ul>	Maximum	Much lower	Maximum	Disappear	Fully compatible	Fully compatible	Only DK, NL, and UK would show interest
Autarkic	<ul style="list-style-type: none"> <li>• High set prices</li> <li>• Paid voluntary set-asides</li> <li>• None</li> </ul>	Minimum	Somewhat higher or lower depending on cost of set-asides	Minimum	Very low	Incompatible in medium term	Incompatible	D, E, I, P, GR, and possibly IR
Social Balanced	<ul style="list-style-type: none"> <li>• Lower prices</li> <li>• Compulsory set-asides</li> <li>• Modulated direct payments</li> </ul>	Significantly enabling	Somewhat higher	Significantly enabling	Somewhat lower	Compatible?	Depends on payment type	None
Economic Balanced	<ul style="list-style-type: none"> <li>• Lower prices</li> <li>• Compulsory set asides</li> <li>• Unmodulated direct payments</li> </ul>	Enabling	Notably higher in the short term; unclear after	Enabling	Somewhat lower	Compatible	Depends on payment type	<ul style="list-style-type: none"> <li>• DK, NL, UK</li> <li>• Probably: B, LUX, IR</li> <li>• Unclear: D, E, F, GR, I, P</li> </ul>

Classification of the solutions is inspired in part by LeTheule and Litvan.

the required shifts in payoffs summarized in Table 1C. To quote René Steichen, a future Agriculture Commissioner: "Europe's food security could be assured with one-third of the cultivated lands and farmers than we currently now have. In thinking of society, however, the disequilibrium would be unacceptable and dangerous."<sup>25</sup> This statement very much reflected thinking in the majority of member states. Clearly, the Commission had to find another path to follow.

After informal circulation of a "non-paper" in January, the Commission proposed a rather novel approach to the CAP in a "reflections" paper released in February.<sup>26</sup> The very conceptualization and preparation of this paper illustrated well how the Commission assumed an entrepreneurial leadership role. Officials in DG VI had prepared the document in-house, without much of the usual preliminary consultation and discussion that normally precedes a Commission proposal.<sup>27</sup> The member states were clearly caught by surprise, and throughout the negotiating process that followed over the next 16 months, none really articulated a systematic alternative vision, leading to counter proposals (LeTheule and Litvan 1993: 756).

The "reflections" paper argued strongly for CAP reform, generally in the direction in which the actual reform of 1992 eventually went. However, this paper of February 1991 did not contain detailed and quantified proposals. Yet, from an internal Commission document of December 1990, which had been leaked to the press,<sup>28</sup> one can reconstruct the Commission's objectives. The Commission aimed to propose a significant reduction in the intervention price for cereals, oilseeds and protein crops.<sup>29</sup> Farms over 80 hectares were to set aside 35 per cent of their lands, those between 31 and 80 hectares 25 per cent, with farms under 30 hectares being exempted from the set-asides. Farmers were to be compensated for the price decrease (but not the set-asides) through "modulated" direct payments tied to hectares of land planted. Full compensation would go to farms under 30 hectares, 75 per cent to those between 31 and 80 hectares, and 65 per cent to those over 80 hectares.

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25 Soisson (1993: 145). Translated from the original by the authors.

26 Commission of the European Communities (CEC) 1991a.

27 Fouilleux (1996: 31). Fouilleux suggests that the sudden failure of the GATT negotiations pushed the Commission to move ahead with its proposals without the usual consultations, a point consistent with our observation that the GATT negotiations were the instigating factor for CAP reform.

28 Swinbank and Tanner (1996: 89). Some details are in Ingersent et al. (1994: 231).

29 The paper also made proposals for the milk, beef and sheep sectors. These were less far-reaching than the cereals/oilseeds/proteins proposals. We will refer to these below in our discussion of side payments.

As Table 2 suggests, this “social-balanced” proposal had several advantages and one key disadvantage. Its use of modulated payments in combination with the other instruments promised a significant improvement in the economic rationality of agricultural policy, at manageable budget expenditure. With lower intervention prices enabling EC producers to compete better against cereal substitutes and with controls on supply, export volumes would fall and, with them, export subsidies. The direct payments were less trade distorting than the traditional price supports, and thus potentially more negotiable in the GATT round (especially given their distinct similarity to existing US deficiency payments). Unfortunately, however, the country most likely to favour this more liberal policy, the United Kingdom, was not sufficiently attached to its liberal principles to see its farmers with large holdings on the average being compensated at a lower rate than those with small holdings. And even more to the Commission’s surprise, all the rest of the member states lined up behind the British in rejecting “modulated” payments.

MacSharry returned with a detailed and quantified official proposal in July 1991 (CEC 1991b). Listed as the “economic-balanced” proposal in Table 2, it retained essential concepts of the social-balanced solution, but with important changes to details. Direct payments would be modulated much less. Compulsory set-asides of 15 per cent would now begin for farms with more than about 20 hectares. And farms under 50 hectares would also be compensated for income losses from set-aside lands. This proposal had two disadvantages that its social-balanced predecessor did not have to the same extent (see Table 2). First, confronted with an intensifying budgetary crisis, the EC would be faced with paying out *more* in compensation than it would have with existing policies (Tangermann 1998). And, second, the Commission had to give in more on its wish for policies that would maximize overall economic welfare. The July proposal also had two advantages. First, it maintained close to the same level of compatibility with the GATT negotiations as the February proposal. Second, MacSharry had done his homework; there was some potential for final political approval of the economic-balanced approach, and thus reaching the suggested equilibrium in Table 1C.

Changing the preferences of the protectionist coalition was not easy; from July 1991 to May 1992, there were to be 27 days of Agricultural Council meetings and 46 days of Special Agricultural Committee sittings (Fouilleux 1996: 17). As in the earlier CAP game (Table 1B), the three more liberal states – Denmark, The Netherlands, United Kingdom – had larger win-sets, welcomed the move to lower prices, and viewed positively the change from price supports to direct payments.<sup>30</sup> Their assent, particularly that of the UK, was to be assured when the

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30 In fact, the three liberal states wanted a further lowering of prices than that proposed by the Commission and argued for fully decoupled support. See *Agra-Europe* 30.III.1992.

Commission agreed to compensate all farms for set-aside land, not just those under 50 hectares, thereby dropping modulation altogether. The exemption of small farms from set-aside requirements plus payments that would compensate farmers fully for the price decrease helped keep wide the win-sets of the states with small farm structures – Ireland, Italy, Portugal, Greece, Spain. In addition, important sections of the Mediterranean countries' agriculture were not touched at all by the reforms – fruits and vegetables, olive oil, wine. Spain, Belgium and Luxembourg had very strong interests in an overall GATT agreement, a fact that also kept their win-sets relatively large.

More problematic for the protectionist coalition were the positions of France and Germany. With growing specialization in agriculture and diversity in farm sizes, the leading farmers association in France, the *Fédération nationale des syndicats d'exploitants agricoles* (FNSEA) faced increasing difficulties in finding a common position. Arguing that reform of the CAP was only a means to sell-out to the Americans in the GATT, the Federation mobilized thousands of farmers in a demonstration against CAP reform in Paris on September 29, 1991. The CAP proposals did run counter to key aspects of the social Christian philosophy behind French agricultural policy that anchored the fundamental *Loi d'orientation agricole* of 1960 and its complementary law of 1962. In framing this legislation, then Prime Minister Michel Debré had cooperated with the Centre national de jeunes agriculteurs (CNJA), the youth wing of the FNSEA, whose leaders had come from the social activist *Jeunesse agricole catholique* in the 1950s.<sup>31</sup> In their perspective, the farmer's role was to work the land and to produce food for humanity, making efficient, modern *production* a core value. Two aspects of the CAP reforms did not sit well with this value (Fouilleux 1996: 81). The partially decoupled direct payments in the proposal disconnected part of farmers' income from their productive activity. Even more disturbing, farmers were being asked *not to produce*, by setting aside land. As Jean-Pierre Soisson, Minister of Agriculture from October 1992 to April 1993, said, "We are an old rural people: for over a millenium, monks and peasants have cleared the land for cultivation and now, suddenly, they are being asked to reverse direction. We can't just 'set-aside' the French countryside like that."<sup>32</sup> The Agriculture ministry publicly sided with the FNSEA and reiterated that the CAP not be reformed (Fouilleux 1996: 52).

The preparation of French policy positions for Brussels does not rest solely with the Minister of Agriculture, however, but is the task of an interministerial committee that also includes the Prime Minister's office, and the Foreign Affairs and Finance ministries.<sup>33</sup> For various reasons, each of these units had an interest in

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31 These events are analysed in Muller (1982).

32 Soisson (1993: 30). Authors' translation.

33 For a detailed analysis of this process, see Fouilleux (1996) and Epstein (1997).

CAP reform and an overall GATT agreement, and found the Commission's proposals worth considering.<sup>34</sup> In addition, from the point of view of the Prime Minister and the President, an autarkic position would run counter to the *vocation exportatrice* assigned to the agri-food sector since the late 1970s. In short, the French win-set gradually widened to embrace the principles of the Commission's proposals. The question remaining was whether the other key actor in the protectionist coalition, Germany, could be brought on side.

The proposal to lower the intervention price for cereals conflicted directly with a fundament of German agricultural policy since the *Landwirtschaftsgesetz* of 1955: high prices are necessary to ensure adequate incomes.<sup>35</sup> Consequently, Germany had fought successfully against French proposals for lower cereal prices during the formation of the Common Agricultural Policy in the early 1960s, and had invoked the Luxembourg compromise for the only time over the same issue in June 1985 (Hendricks 1994: 154). Germany's consent, therefore, to a price decrease is evidence again of the impact of the GATT. International pressures succeeded where France had long failed. In September 1991, the Quadrilateral (US, EC, Japan and Canada) had met and confirmed that the MacSharry Proposals could unblock the GATT negotiations (Fouilleux 1996: 43). The German cabinet met in special session on October 9, 1991 and resolved that cuts in support prices could only be accepted on the basis of full income compensation that was permanent and reliable, and that did not discriminate against larger holdings. Moreover, these income support payments would have to be safeguarded in the GATT negotiations on reduced domestic support (Hendricks 1994: 158–159).

Even with these principles being accepted by other member states, Germany took a relatively narrow win-set on price changes into the last marathon negotiating session in May 1992. It was willing to accept higher supply controls (set-asides) in exchange for higher prices. The Commission had called for a 35 per cent decrease in the cereals price while the Portuguese Presidency proposed a 27 per cent cut at the final session.<sup>36</sup> This proposal was insufficient for the Commission, and the accompanying set-aside level was too high for the French. Ultimately, a compromise was found at 29 per cent (just below Germany's political threshold of 30 per cent) with a compulsory set-aside rate of 15 per cent (fully compensated). Germany received an additional side-payment of higher male beef and suckler cow premiums (LeTheule and Litvan 1993: 776). In an unsuccessful attempt to bring

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34 See LeTheule and Litvan (1993: 769) and Fouilleux (1996: 64).

35 Article 1 of this law indicated that agricultural policy would seek to ensure living conditions for farmers comparable to those of other relevant social groups. The law also requires the federal government to report annually to parliament on this comparison.

36 Hendricks (1994: 159). Also see Gardner (1992: 28).

Italy on side, the Agricultural Council agreed not to cut milk quotas at this time as had been originally proposed, and even to offer an increase of the quota volume to Italy.<sup>37</sup>

### **The GATT Game Phase 2: January 1991 to December 1993**

The 1992 reform of the CAP did not at all lessen the budget pressure on the EC, presumably one of the primary objectives of reform if it had been pursued as a domestic game not linked to the GATT game (Tangermann 1998). It did change the payments to farmers from relatively invisible subsidies from consumers to more visible transfers from taxpayers, again something which was unlikely to happen in an unlinked CAP game. The prize, however, was that the reforms altered the likely win-sets in the GATT game. Lower intervention prices for cereals plus compulsory controls on supply promised a reduction in EC cereals exports, and thus *export subsidies*. The lower prices also made EC cereals more competitive with imported duty-free cereals substitutes, enabling the EC to let “rebalancing” fade as an important demand. This demand, of course, was a principal sticking point in the *market access* negotiations. And the move from price supports to partially decoupled direct payments created a new basis for discussion between the US and the EC on the *domestic support* issue.

A comparison of Tables 1A and 1D summarizes our hypotheses on how the agreement on CAP reform potentially altered the payoffs for the EC in the GATT game. An agreement changes from being the worst outcome for the EC to the one with the second highest payoff. Only intransigence by the US in the face of EC willingness to agree would provide the Community with a higher payoff. In this circumstance, the EC would have emerged with a reformed CAP, not subject to any further GATT disciplines, and with responsibility for a potential collapse of the overall GATT placed squarely on the shoulders of the US. As Table 1D shows, the new equilibrium in the face of these strategic choices is an international agreement. Reaching this new equilibrium, however, was again to require sustained supranational leadership by the European Commission.

Late in February 1991, the Commission quietly agreed to negotiate separate commitments on export subsidies, market access and domestic support. The EC was permitted to make this change, without explicitly acknowledging that it had been made (Croome 1995: 286). Negotiating groups for the Uruguay Round then began meeting again in June and July 1991. These agricultural discussions opened with a new earnestness because the deposition of proposals to reform the CAP

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<sup>37</sup> Italy was the only member to vote against the reform (LeTheule and Litvan 1993: 776).

had enhanced the credibility and authority of the Commission's negotiators in Geneva (Croome 1995: 288). The first concrete signal of movement came in November 1991 after a meeting in Washington between President Bush and Jacques Delors, President of the Commission. Bush indicated that the US was willing to accept a 35 per cent cut in the volume of subsidized exports, down considerably from the last official US position of 90 per cent, and a 30 per cent decrease in domestic support (down from 75 per cent).

In December, acting as an international mediator, GATT Director-General Arthur Dunkel took the initiative to present a draft final act (DFA) that presumed a considerable convergence of win-sets. In agriculture, his proposals included:

- *export subsidies*: a 24 per cent reduction in volume, with a 36 per cent reduction in their value
- *market access*: full tariffication, with resulting tariffs reduced on average by 36 per cent and individually by at least 15 per cent by 1999, with access of at least 3 per cent of the domestic market, rising to 5 per cent by 1999.
- *domestic support*: no reduction for non-distorting ("green box") subsidies. All other subsidies were to be reduced by 20 per cent from their 1986 levels over the period 1993-99.

Dunkel had clearly moved beyond the positions of the most recalcitrant negotiating parties - the EC and Japan - in crafting suggestions consistent with the legal principles of the GATT. His proposals required less change than the US had demanded, but more than the EC had countenanced by calling for a significant reduction of export subsidies, ruling out rebalancing and implying the direct payments proposed in the CAP reforms would be subject to GATT discipline.<sup>38</sup>

Not surprisingly, the EC reacted by saying that the DFA proposals were "not acceptable" (Stewart 1993: 215). The real question, however, was whether they represented a basis for negotiating a final agreement. Supported by the UK and Germany, the Commission said in March 1992 that the DFA provided a basis for agreement, without prejudice to the final position of the EC. France objected strenuously, arguing that the Commission was exceeding its mandate - the negotiating position agreed in November 1990 (Woolcock and Hodges 1996: 316). Late in November 1992, with strong support from the UK presidency of the Agricultural Council, the Commission again met with US negotiators, this time at Blair House in Washington, and reached agreement on three matters: the agricultural

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38 In being allocated to producers based on hectares planted to a given cereals crop, these payments were not fully decoupled from production decisions.



chapter of the Uruguay Round, and two other disputes related to oil seeds and maize gluten feed. Details of the former need not detain us here.<sup>39</sup> Suffice it to say that the CAP direct payments and US deficiency payments were put in a “blue box” not subject to the domestic support reductions, the EC quietly dropped its rebalancing demand as expected after CAP reform, and the two partners agreed on a 21 per cent reduction in the volume of export subsidies from a 1986–88 base.

No act in the GATT negotiations that began in 1986 gives a clearer indication of the Commission’s leadership capacity than the Blair House Accord. At Blair House the Commission was able to pull together the threads of both games despite the fact that officially it was still operating with the “negotiating mandate” given it by the Council in November 1990. This mandate did not even permit making separate commitments on export subsidies, market access, or domestic support. Certainly the Accord went significantly beyond the position of France, the most strongly opposed member state, prompting Prime Minister Bérégovoy to state that the accord lacked “legal significance” (Vahl 1996: 209). By the December meeting of Council, Ireland, Belgium, Italy, Spain, Greece and Portugal were also expressing doubts about the Accord, echoing in part the French argument that it was incompatible with the new CAP reforms (Croome 1995: 341; Vahl 1996: 210). Notably, however, Germany was silent, deciding neither to oppose France publicly nor to criticize the Commission.

Using its formal and informal powers to control the agenda, however, the Commission set about building a majority in support of the agreements. It did not submit the accord immediately to the Council for approval, arguing that this step would come when the negotiations on the agricultural chapter at the GATT had concluded. Nor did it even distribute the text officially to member states. To France’s dismay, the Commission resumed the GATT discussions in Geneva, assuming that agriculture had been largely settled. Germany’s hard-line agriculture minister, Ignaz Kiechle, was replaced by Jorchen Borchert, who, in line with Chancellor Kohl’s thinking, described Blair House as a “good deal” (Vahl 1996: 250). At a May Council meeting, France agreed to the oilseeds component of Blair House.

Nonetheless, under a new conservative government with traditionally close ties to the FNSEA, France continued its opposition to the two other parts of the Accord, forcing a Jumbo Council (Agriculture and Trade Ministers) meeting in September to address its demand that the Accord be renegotiated. At this meeting, the three liberal states – Denmark, The Netherlands, the UK – plus Spain defended the agreement while Ireland and especially France attacked it. Reluctantly,

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39 For a fuller discussion and evaluation of this agreement, see Josling, Tangermann and Warley (1996) and Swinbank and Tanner (1996).

the Commission agreed to seek “clarification” on several points from the US. In December 1993 the US agreed to the availability of an alternate reference period (1991–92) for certain products in determining export subsidy reductions, so-called “front loading”, and to an extension of the “peace clause” from 6 to 9 years.<sup>40</sup> With these minor changes, the Blair House Accord became the core of the agricultural chapter of the WTO agreement that was eventually approved by all member states – and the Uruguay Round was successfully concluded.

## Conclusion

The richness of the information and the analysis available on agricultural policy reform reveals the complex interdependence between domestic, regional (EU) and international levels of policy-making. Departing from the counter hypotheses of Paarlberg and Patterson, this article demonstrates how the very content of reforms to the CAP was shaped by interpretations of what policies might be successfully enshrined in a GATT agreement. When it came to reforming the CAP, the EU had to consider not only what policy instruments might be chosen and how they might be configured to resolve internal difficulties, but also whether possible solution sets of policy instruments would be acceptable in the international forum and would permit those negotiations to proceed. Operating under this double constraint, the article shows that the EU chose a combination of three policy instruments that was unexpected from a purely domestic perspective: lower intervention prices, direct payments to farmers, and compulsory set-asides. Given the institutional path of development followed by the EC in formulating and revising the CAP over the years, other more autarkic combinations would have seemed more likely. In fact, the new CAP did a relatively poor job of addressing one of the key internal incentives for reform, rising budgetary expenditures.

Given the internationalizing forces present in many policy areas, there is no reason to assume that this situation – the very structure of domestic policies being shaped by international policy-making – was a unique event. We thus posed the question: how should we analyze and theorize these kinds of linkages between the international, EU and domestic levels? We argued for separating out the two

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40 The peace clause refers to a part of the Blair House Accord where GATT partners agree not to challenge the subsidies in the CAP (and other countries’s policies) under GATT dispute procedures if they conform with the Uruguay Round Agreement on Agriculture. From the point of view of the Commission, this clause was crucial because it gave the CAP clear legitimacy at the GATT, something it had lacked since its inception. On this point, see Legras (1993: 130–131) and Paemen and Bensch (1995: 217–218).

sets of negotiations and treating them as autonomous *x-level linked games*. In making this separation, we also found it useful to draw on Putnam's work and to try to discern win-sets for key actors in both games. Drawing on the information on the politics of negotiations, we grouped states into coalitions/players, identified the core issues of the games, and focused on the apparent strategies chosen. We used this information to construct ordinal ranked payoff matrices that conformed to key equilibria in the two linked games and that permitted us to isolate how outcomes in one game altered the payoffs and thus the strategies in the other. Given that we were placed in the familiar social science situation of analyzing outcomes after the fact, it is not really possible to say that the empirical analysis "proves" our hypotheses. Certainly, our theory would have been wrong if the Uruguay Round had been completed without a liberalizing CAP reform, or if the EU had agreed on liberalizing reforms and then these had not broken the stalemate at the GATT.

The value of our analysis might still be shown, however, by offering a prediction about future negotiations. Agricultural negotiations are to resume once more at the WTO in 1999. The 1996 Farm Bill in the US completely decoupled the direct payments made to producers of major commodities from their production decisions. Hence the US deficiency payments that were placed in a "blue box" together with the reformed CAP payments of 1992 no longer exist. If the upcoming WTO game were not linked to CAP reform, we would have expected that this change would spark no response by the EU. In its Agenda 2000 reform proposal for agriculture, however, the Commission recommends direct, largely uncoupled payments to farmers in the cereals and oilseeds sector. To a large extent, the Agenda 2000 addressed the issue of Eastward enlargement of the EU (and thereby provides another challenging example of links between domestic policy reform and international pressures for future research). However, the debate in Europe is also already again framed in terms of the WTO, and the Commission clearly says so in the Agenda 2000. Should the EU reform agriculture now and thus seek to influence others' domestic policies? Or should it hold its powder and save its reforms as ammunition in the upcoming WTO negotiations, placing itself in a similar situation as in 1991-92? In the words of the current Agriculture Commissioner, Franz Fischler, in a speech to the Agriculture Council: "Can we agree on a joint position for the coming round of WTO negotiations or are we going to adopt a defensive stance and merely respond to pressure from the outside, as we did in the last round" (Fischler 1997: 8).

In short, based on our theory, we dare predict that one of the following sequences will occur:

1. If CAP reform is decided before the next round of WTO negotiations, the changes adopted will reflect clearly the international constraints on the EU and will strengthen the EU in the WTO Round.
2. If the WTO Round resumes in 1999 without significant CAP reform, a stalemate will emerge in the WTO negotiations. After considerable political bluster, the EU will reform the CAP in ways that permit it to assume international commitments.

If neither of these outcomes materializes, our theory will have proven to be wrong.

As a final point, we conclude that as the internationalization of policy-making proceeds and regional economic cooperation continues to grow in importance, it becomes more essential to find a theoretical place for international organizations in x-level, autonomous, linked game analysis. We build on the separate concepts of international organizations as mediators and as entrepreneurial leaders. Depending on its other attributes, the institutional mandate of the international organization may permit it to pose solutions to negotiations that permit coalitions of states to reach equilibria more quickly and despite the presence of unanimity decision-making rules. Supranational institutions such as the EU Commission may have the option to act as entrepreneurial leaders, while intergovernmental institutions such as the GATT Secretariat may be confined to the role of international mediators.

We also do not wish to underestimate the constraints that powerful nation-states can place on playing these roles. Future theoretical analysis must try to specify when the constraints placed on international organizations by nation-states will be stronger and when they will be weaker. Our analysis showed that when an entrepreneurial leader is involved in autonomous, linked games, it is provided with some opportunities to interpret the relative payoffs for the players in one game in ways that lead to solutions for the second game that go well beyond the position of the most opposed player. We illustrated this point with the Commission's proposals for reform of the CAP. It is evident, though, that this one case study of autonomous, linked games provides only a start in developing a better conceptual understanding of when international organizations will be more or less constrained by nation-states in intergovernmental negotiations.

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