TRADE POLICY FORMATION IN EUROPE: DISPARITIES BETWEEN THE EU-15 STATES AND THE CEE NEW MEMBER STATES

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Abstract

BEAU MICHAEL BETTIGA: **TRADE POLICY FORMATION IN EUROPE: DISPARITIES BETWEEN THE EU-15 STATES AND THE CEE NEW MEMBER STATES**

Trade preference formation has been the deciding factor in the process of creating and reforming the Common Agricultural Policy. The process of reforming the policy created a discrepancy between the benefits received by the original European Union-15 member states and the late accession central and eastern European new member states. This paper analyses how trade preferences have shaped the reforms of the CAP and how the CAP has been poorly implemented in the late accession states. Poland will be used a case study to analyze how the CAP has been poorly formed in regards to late accession states' needs because the diverse agricultural structure in Poland can demonstrate several interesting challenges the late accession states faced when implementing the CAP. The project found that the CAP was poorly implemented in Poland because direct payments to farmers were being used for consumption needs and not additional investment, the additional measures included in the policy to encourage sustainable farming and rural development forced Poland to invest money in nonproduction-stimulating measures, and Poland and other late accession states did not have the administrative capacity to implement the complex measures of the CAP effectively.

Introduction

After the collapse of the Soviet Union and the opening of the Iron Curtain, the European Union offered an opportunity for the countries freed from Soviet influence. These countries, Poland, Hungary, the Czech Republic, Slovakia, Romania, Estonia, Latvia, Lithuania, and Bulgaria, were interested in the possibility of closer economic and political ties with Europe. At the 1993 Copenhagen European Council, conditions and requirements for accession were announced for the potential new member states. The Council declared that potential new members must be able and willing to take on the political, economic, and monetary challenges of joining the European Union.[1]

For these former communist states, being able to fulfill the requirements of membership in the European Union meant that significant structural changes needed to be made, and there were many obstacles in the way on the path to accession because the EU was shaped by original member states for their needs and not the CEE-NMS. The agricultural structures of the CEE-NMS were different from the family based farming prevalent in the EU-15 because of the historically feudal nature of agriculture in these states and the process of collectivizing agriculture into large farms under communist rule. The Common Agricultural Policy, a system of price-supporting subsidies and supplementary income payments, was designed primarily for the family farm structure of the EU-15, and the policy needed to be reformed several times by the EU-15 to prepare for the accession of the central and eastern European new member states (CEE-NMS). The CEE-NMS have had problems implementing a policy not primarily designed for their needs, and the reforms made to the policy in order to lessen the budgetary costs of

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[1] Gorton, Matthew, Carmen Hubbard, and Lionel Hubbard. "The Folly of European Union Policy Transfer: Why the Common Agricultural Policy (CAP) Does Not Fit Central and Eastern Europe." *Regional Studies* 43.10 (2009): 1305-317. EBSCOHost. Web. 2 May 2016, 1306

accession were compromised by the preferences of the EU-15 countries in charge of reforming the policy and the lack of leverage in negotiations of the CEE-NMS.[2]

Integration with the EU was the goal for these potential member states. Successful integration to the EU requires that connections between domestic elites in already entrenched member states and the domestic elites in potential member states be formed to share information and experiences.[3] Emulation is also a way that these potential member states could build compatible domestic institutions with the existing institutions within the other member states. Another way that integration was possible was through the convergence of countries through harmonization. Involvement in supranational and intergovernmental organizations and institutions allowed potential member states to cooperate and develop relationships with the already entrenched member states. Involvement in NATO was an opportunity for the former Soviet satellite states to begin relationships with the EU members through common defense goals. Finally, the last way integration could occur was through the process of penetration, the requiring of potential member states to conform to the already existing regulations of the EU.[4]

In the case of the CEE countries, institutions needed to be changed from the post-Soviet structure to a structure more aligned with EU policies. Emulation occurred in two forms, legal and practical emulation.[5] Since CEE countries applying for membership to the EU were in an inferior negotiation position to the already unified member states, candidate countries have had little to no influence over the development of EU policy and institutions. The process of emulation in the CEE countries was attempting to recreate institutions created with the needs of

[2] Gorton, Hubbard, and Hubbard, 1306
[3] Gorton, Hubbard, and Hubbard, 1307
[4] Gorton, Hubbard, and Hubbard, 1307
[5] Gorton, Hubbard, and Hubbard, 1307

the Western European member states in mind.[6] Large chunks of EU law were rapidly applied within the CEE states, dodging the domestic legislative procedures and becoming law. Policies such as the Common Agricultural Policy were created by Western European states for their own agricultural needs. The CAP is characterized by a series of regulations regarding the level of production of products, direct payments, and rural development. Since there are so many rules regarding the CAP, penetration occurs during the emulation process because of the forced implementation of an external policy created to address the needs of a group of countries structurally different from the CEE states.[7]

In Western Europe, the systems of agriculture historically have been built upon the concept of the family farm. Peasants in Western Europe were able to move freely and buy or sell land. Children inherited their parents' farms and could choose their partner in marriage.[8] In the CEE countries, peasants became tied to the land and developed into serfs. The structure of agriculture was not family based but was rather organized in large, plantation style estates with the laborers attached to land and devoid of rights.[9] The system of serfdom continued relatively uninterrupted for three centuries. During the 19th century, the varying forms of serfdom in each CEE country were abolished, but the structure of the systems remained. There were few opportunities for newly liberated peasants to find employment outside of the farm, and the allotment of land to the peasants was meager and impoverishing. Access to credit was scarce, and the few forms of credit available rested in the hands of the former masters of the peasants.[10] Serfdom ultimately was ended, but the legacy of large farms remained.

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[6] Gorton, Hubbard, and Hubbard, 1307
[7] Gorton, Hubbard, and Hubbard, 1307
[8] Swain, Nigel. "Agriculture 'East of the Elbe' and the Common Agricultural Policy." *Sociol Ruralis Sociologia Ruralis* 53.3 (2013): 369-89. EBSCOHost. Web. 2 May 2016.371
[9] Swain, 371
[10] Swain, 371

With this history of agricultural structuring in mind, CEE countries transformed their systems of agricultural four different times in 20th century.[11] The first round of reforms occurred after World War I when some of the large estates were dismantled into smaller farms and allocated to peasants. For example, farms above 50 hectares in size constituted 48% of the total area of Polish farms. After World War I, farms above 50 hectares in size only amounted for 25.8% of the total area of Polish agriculture.[12] After World War II, peasants and communists called for more drastic reforms of the agricultural structures, but a new system of peasant farming was barely implemented before the concept of collectivization appeared on the agenda of CEE states. In the late 1940's, pressure for collectivization began and the process was started. The 1950's saw a temporary break in the process of collectivization, but the pressure returned by the end of the decade. By the 1960s, collectivization had occurred in the now Soviet satellite states with the exceptions of Poland and Yugoslavia, two states which quit on the collectivization process after the death of Stalin because of the involvement native communists who rejected many aspects of the Stalinist system.[13] Over the 20th century, the large, plantation style estates went through a dramatic period of reform, but the farms ultimately developed into large, collective farms with better compensated workers.[14] This system of large farms differed from the smaller, family farms in Western Europe, and this agricultural structure continued until the fall of the Soviet Union.

The implementation of the CAP can be argued to have fit poorly with the needs of the CEE-NMS in addition to the structural differences between agriculture in the EU-15 and the CEE-NMS. There are three main reasons why the CAP is not designed in correlation with the

[11] Swain, 371
[12] Swain, 372
[13] Davies, Norman. *God's Playground. A History of Poland, Volume II: 1795 to the Present*. Oxford: Oxford U, 2005. Print. 437
[14] Swain, 372

needs of the CEE-NMS. The first reason is that EU-15 policy preferences have driven the development of the CAP over time. The second reason that the equalization of the rural development pillar of the CAP has forced much needed CAP funds to go to other, nonproduction stimulating projects. The third and final reason is that the CEE-NMS have struggled to build the administrative capacity to implement the measures required by the CAP.

First, the CAP was designed for the needs of the EU-15 and not the needs of the CEE-NMS. Swain argues that by extending the CAP beyond the borders of the EU-15, the negative aspects of the CAP have been accentuated in the NMS. [15] Most of the CEE-NMS have large, formerly state run farms because of collectivization, but Poland and Romania have a more diverse farm structure. The CAP was intended to service family farms, but the large amount of corporate farms above 100 hectares in size uses up disproportionate percentages of the CAP budget for each state. In the Czech Republic in 2010, 68.72 per cent of the budget went to the 6.18 per cent of farmers in the largest payment categories (over €100,000); in Slovakia the proportion was 70.67 and 4.75 per cent. [16] There are very few medium sized family farms in the CEE-NMS, so the diversity of farm structure differs significantly from the organization of agriculture in the EU-15.

Secondly, the balancing of both pillars of the CAP has created problems in terms of implementing the measures required by both pillars and then the balancing of fund allocation between the two. As direct payments were capped by the phasing in process of CEE-NMS for the decade following accession, a larger percentage was applied to the second pillar of the CAP. As the decade continued, however, the amount of support given through the system of direct payments increased. Farmers in the CEE-NMS view the system of direct payments as an income

[15] Gorton, Hubbard, and Hubbard, 1311
[16] Swain, 380

support policy, so the use of direct payments as a mode of investing in further capital and economic diversification has not occurred.[17] The system of direct payments is inhibiting further growth of local rural economies by limiting investment in further opportunities outside or on the farm. In some CEE-NMS countries such as Hungary, the income effect of the direct payments is the difference between some farms generating negative or positive income.[18] Also, farms with diversified products such as livestock can sometimes receive less in terms of direct payments than arable farms focused on a single product.

Finally, there have been problems with CEE-NMS administrative ability to implement the rural development pillar of the CAP. Throughout the 1990s, rural development offices under each of the CEE-NMS's Ministries of Agriculture were weak and ineffective.[19] CEE-NMS have a long history of productionist tendencies, so the agricultural sectors of the CEE-NMS were inexperienced with lowering production and focusing on more environmentally friendly produce. Also, the protectionist stance of most CEE-NMS Ministries of Agriculture has taken precedence over the nongovernment organizations focused on rural development and national administrations for environmental protection.[20] Most of the pillar 2 funds have been allocated to improving the competitiveness of CEE-NMS produce and not economic diversification in rural areas, thus continuing the farm-centric focus of the CAP funds. [21]The administrative difficulties in implementing all aspects of the CAP have been apparent in the lack of interest in the second pillar of the policy from these states.

Throughout the history of the CAP, the EU-15 states have driven the creation and the reforms of the policy without the input of the CEE-NMS. When preparing for the eventual

[17] Gorton, Hubbard, and Hubbard, 1313
[18] Gorton, Hubbard, and Hubbard, 1313
[19] Gorton, Hubbard, and Hubbard, 1314
[20] Gorton, Hubbard, and Hubbard, 1314
[21] Gorton, Hubbard, and Hubbard, 1314

accession of the CEE-NMS after the fall of communism, the EU-15 barely reformed the policy to better fit the needs of the CEE-NMS and then required the CEE-NMS to accept the implementation of agricultural measures that may not have fit the needs of the CEE-NMS. Have the EU-15 forced a policy upon the CEE-NMS, a group of countries with a communist history of collectivization, that does not fit along their agricultural needs, and, if so, how has this implementation of the CAP created negative consequences for the process of agricultural development in these new member states? This paper projects that influence of EU-15 preferences on the development of the CAP over time has created a policy poorly equipped to transition to the needs of the CEE-NMS, and Poland will be used as a case study to present several examples of how the implementation of the CAP has created negative consequences for both the typical large state farm in the CEE-NMS and the small peasant farms present in Poland.

Trade Policy

Society Based Approach

In the world of international trade politics, there are many different approaches that can be used when attempting to determine why certain policies are formed and why different states desire different trade outcomes. These preferences of individual countries can be implemented on the global level, in regional agreements, or unilaterally, and the policies created are normally the product of intense negotiation from all participants in the process. There are two approaches that can be used in general to explain how various interactions at the domestic level shape the preferences of the industries and the states. These two approaches, a society based approach and a state based approach, attempt to explain how the various actors in trade agreements such as governments, businesses, and labor, interact with each other to create the preferences of the nation as a whole.[22]

A society based approach to understanding trade policy formation and trade preferences argues that governments trade policy objectives are shaped by politicians' responses to interest group demands. For example, the European Union's reluctance to liberalize European agriculture reflects EU policymakers' responses to the demands of European farmers. [23]A society centered approach emphasizes the interplay between organized societal interests and political institutions. One of the main aspects of a society based approach is the recognition that international trade has income distribution effects on the participants in the trade agreement. When trade is liberalized, there will always be some actors who gain from the trade and some actors who lose. Since trade has distributional consequences for the participants, net winners and losers from trade competition battle in political arenas to advance their specific interests such as protection for

[22] Oatley, Thomas H. *International Political Economy*. New York: Pearson/Longman, 2008. Print. 71
[23] Oatley, 71

farmers in the EU.[24] Organizations such as trade associations pressure politicians for more controls on imports and other forms of protection, and after a while these organizations start to group together to make protectionist coalitions. In most cases the reverse happens as well with pro-liberalization coalitions forming out of associations interested in liberalizing trade. These contrasting trade associations and nongovernment organizations use their collective influence to push their trade agendas into legislation and policy. [25]The methods these groups take to represent their interests depend on the political institutions and framework of the country in which they are operating.

Since a society approach is dependent on interest group demands, attention must be brought to the source, content, and methods of their demands. The goal of a society based approach is to be systematic in determining the preferences and actions of the trade associations and other representative nongovernment bodies.[26] For this approach to be systematic, it derives trade policy preferences from trade's distributional effects on individual incomes. Trade raises some incomes and lowers others, doing so very predictably, and these income consequences determine trade preferences since engagement in trade is the distributing factor in regard to incomes. There are two main models that can be used to determine participants' preferences in trade policy: the factor and the sector models.

The two models agree that raising and lowering tariffs redistributes income, and they agree that income consequences are the source of trade preferences. The models differ, however, on how trade income consequences divide society. The factor model argues that trade politics are

[24] Oatley, 71
[25] Conceição-Heldt, Eugénia Da. "Emerging Powers in WTO Negotiations: The Domestic Sources of Trade Policy Preferences." *The International Trade Journal* 27.5 (2013): 431-49. EBSCOHost. Web. 3 May 2016. 433
[26] Oatley, 72

driven by competition between factors of production: capital and labor.[27] These two factors can be represented in two distinct societal groups of laborers and capitalists. These two factors have distinct trade policy preference because trade's income effects divide society along these two factor lines. Whenever tariffs are lowered or raised, one factor's income increases while the other factor's income falls.[28] Since trade can be the deciding factor in how the two factors' incomes are determined, trade requires the two factors to be in constant opposition to each other. Not all countries are endowed with the same amount of labor and capital, so the abundant factor benefits from liberalized trade while the scarce factor is harmed. [29] If left interrupted over time, factor incomes between two countries engaging in international trade will equalize. In a model that simulates trade between the United States and China, the income of American labor and the income of Chinese labor will change until the two sides equalize, and the same process will occur for capital. This tendency for trade to cause factor prices to converge is known as factor-price equalization, a term that makes the claim that this process will occur.[30]

Trade policy preferences stem from these income effects: the scarce factors want to minimize trade and protect their incomes with the abundant factors want to liberalize trade to maximize their gains from trade. Normally, scarce factors demand high tariffs to protect domestic markets from competitive imports with abundant factors want low tariffs to capture as much gain from trade as possible.[31] In the factor model, this idea dictates that owners of capital prefer liberalization and workers prefer protectionism. Since labor and capital pitted against each other in constant competition to influence policy formation, trade politics will forever be divided

[27] Oatley, 73
[28] Blonigen, Bruce, and Jacob McGrew. "Task Routineness and Trade Policy Preferences." *Economics and Politics* 26.3 (2013): 505-18. EBSCOHost. Web. 3 May 2016., 505
[29] Blonigen and McGrew, 505
[30] Oatley, 74
[31] Oatley, 74

into conflict between workers and capitalists.[32] The factor model, however, has a critical weakness. An assumption that labor and capital are homogenous is required for the factor model to be applied. It is obvious, however, that there are many different subgroups that could see varying income consequences from the distributive effects of trade.[33]

The other model used to explain how trade policy and preferences are formed is through the sector model. This model argues that trade politics are driven by competition between industries, and these different industries have different preferences that divide society along separate industries.[34] Whenever tariffs are raised or lowered in this model, wages and return to capital employed in some industries both rise, where wages and return to capital in some other industries both fall. The distributional effects of trade can pit workers and capitalists in one industry against workers and capitalists in another industry, creating conflict between industries.

The sector model makes a substantially different assumption about factors in comparison to the factor model. The sector model argues that factor mobility, the ability of labor and capital to change from one industry to another, is not easily moved between industries.[35] In the factor model, labor and capital can switch industries easily, leaving the disadvantaged industries to industries better suited to capitalize on a state's endowment. In a system where factors are extremely mobile, factor endowments are important in determining the incomes of both labor and capital. The sector model argues that factors are inherently tied to their respective industries and cannot easily move between different industries.[36] For example, it may be difficult for a worker to change jobs because of geographic, economic, social, or educational considerations.

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[32] Oatley, 76
[33] Oatley, 76
[34] Blonigen and McGrew, 505
[35] Blonigen and McGrew, 506
[36] Blonigen and McGrew, 506

Since these factors are unable to change industries easily, the distributive effects of trade have the same effects on both labor and capital within a particular industry. For example, when the demand for European agricultural products falls, the demand for European labor and capital both fall as well because capital used in agriculture cannot easily be repurposed into capital in a different industry. When these factors have low mobility and industries are competing for access to trade policy formulation, workers and capitalists will not unite across industry lines.[37] Instead, members of the same industry will find common cause to unite for the same change to trade policy. An industry with abundant factors will unite to push for trade liberalization while an industry with scarce factors will try to increase protectionist trade policies.[38] There is no class conflict present in the sector model but rather competition between industries.

As each country has a different endowment of capital and labor, the sectors or industries with the abundant factors are considered to be export oriented sectors. These sectors desire to introduce their abundant products into other domestic markets to compete for a larger percentage of market shares.[39] On the other hand, sectors or industries with scarce factors are known as import-competing sectors. These industries are vulnerable to competition from foreign products produced in a country with more abundant factors in that industry, and these industries clamor for protection against these cheaper imports. The sector model accounts for more complex interactions on the international level. The factor model contrasts labor and capital while the sector model frames countries that export products against industries that are vulnerable to foreign competition. The difference between the two models is the fluidity of labor and capital to move between industries.

[37] Oatley, 78
[38] Oatley, 78
[39] Oatley, 81

The process of forming individual preferences into policy is complicated and can run across several difficulties. One of the first problems in translating preferences into trade policy is the collective action problem. Collective action problems are when groups that would normally unite to push for a common trade policy struggle to achieve complete involvement by the factor or the industry. The phenomenon that drives the collective action problem is the issue of free riding which occurs when members of a factor or industry depend on other members to shoulder the costs of a policy or program which the unpaying member utilizes to their benefit.[40] The issue of free riding is more prevalent in larger groups such as labor or consumers. These groups have common objectives, and they must pool together their resources to be able to reach them. The issue, however, is that the size of the group weakens the importance of the contributions from each individual member.[41] Whether or not one person contributes to the common objective is not going to deter the objective from being reached.

The problem with collective action changes in degree depending on the size of the group. In these larger groups, the incentive structure is shaped to encourage free riding, and this incentive applies to all the members. Everyone in the group will conclude that their contribution is null to the reaching of the objective, and thus no one contributes, resulting in the failure to reach the common goal.[42] Several conclusions can be drawn about trade policy formation through the collective action problem.

First, small groups of producers tend to dominate trade politics because of the importance of each firm's contribution to the whole. A single firm's lack of involvement can jeopardize the entire industry's common goal, so the incentive to free ride is drastically reduced.[43] Next,

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[40] Oatley, 80
[41] Oatley, 81
[42] Oatley, 81
[43] Oatley, 81

producers tend to prefer protectionism at the cost of consumers through the raising of tariffs. Only a small number of firms and individuals benefit from a high trade tariff, and consumers are forced to carry the costs of the tariffs through the protected prices of the domestic industry because producers drive trade politics. Finally, governments are reluctant to liberalize trade absent of a reciprocal agreement with another country. Multilateral trade policies open foreign markets to export-oriented industries in both countries.[44] There is another approach to trade policy formation that differs substantially to the processes outlined in the society based approach.

State Based Approach

The society based approach explains the interactions between factors and their trade policy preferences, but there are situations where the society based approach fails to explain trade conflicts. An example of one of these situations is when two competing exporting firms are competing for a share of the global market for their product.[45] Rather than focusing on a government's use of tariffs to protect disadvantaged domestic producers, the state based approach focuses on the government's use of subsidies to assist export producing firms competing in the global market. This state centered approach dictates that politicians operate independently from restricted interest group preferences in pursuit of some greater objective that may or may not improve society's aggregate welfare.[46]

There are two common assumptions that constitute a state centered approach to trade policy formation: there are certain conditions where protectionism can benefit society within a country and there are situations where governments operate independent of interest group involvement in politics.[47] In these situations, individual agendas of politicians drive the

[44] Conceição-Heldt, 433
[45] Oatley, 94
[46] Oatley, 95
[47] Oatley, 95

formulation of trade policies rather than the preferences of specific interest groups. The state based approach takes these two assumptions and combines them to state that there are situations when governments intervene in the domestic economy through policy measures such as tariffs and subsidies in order to improve society. [48]

One example of a situation when government intervention can improve aggregate social welfare and operate independently of interest group involvement is in the cases of infant-industry protection. This case dictates that there are situations where new firms will not be initially efficient but will gain efficiency and productivity over time.[49] These situations determine that government protection in the short term can improve societal benefit over the long term as the infant industry develops. Normally, there are two explanations why new industries may not be successful in the short run. Economies of scale and economies of experience are two phenomenon that influence the ability of a firm to be efficient immediately. Economies of scale occur when the cost of producing a unit falls as more units are produced. Initial products will be expensive, but the cost burden falls as the firm produces more goods.[50] Economies of experience occur when the production of a specific good requires skills and knowledge that can only be gained through experience with the production of the good. This knowledge will not be present in a new firm, and these skills will take time to develop. The cost of production will fall as the workers gain the skills required to produce the good efficiently.[51] These two explanations demonstrate why firms may be unsuccessful in the short term but can be efficient in the long term when paired with government protection.

[48] Oatley, 95
[49] Oatley, 96
[50] Oatley, 96
[51] Oatley, 97

When a situation arises where an infant firm can benefit society by being protected by government measures, the policies chosen to protect the targeted industry are referred to as industrial policy. Industrial policy includes various instruments of protection such as tax policy, subsidies, and tariff with the goal of incentivizing the movement of capital and labor to potentially more lucrative industries. [52] Rather than responding to short term demands from interest groups and coalitions, a state acts normally with a long term objective in mind such as improved economic growth, efficiency, and productivity. Normally, these long term objectives are created by a country's desire to compete in a specific market with already established foreign firms.[53] Developing countries use industrial policy in an attempt to recreate the conditions for success in already advanced economies. In these situations, the state's decision to intervene in trade can potentially improve the overall welfare of society.

Not all countries are equally effective at implementing successful industrial policies. Each state has a different political framework that may either assist or harm efforts to build successful industrial policies. The ability of a state to successfully protect its policymakers from the short term preferences of interest groups and coalitions is defined as state strength.[54] Some states have strong central governments that operate independently of private interests while other states have decentralized authority that provides multiple channels for interest groups to impact trade policy decisions. Strong states can plan with the long term welfare of society in mind while weak states struggle to create a long term plan in the face of interest group involvement.[55] Also, stronger states find it easier to remove instruments of protection once the infant industry has gained enough efficiency through economies of scale and economies of efficiency to compete on

[52] Oatley, 99
[53] Oatley, 99
[54] Oatley, 100
[55] Oatley, 101

the global market. A strong state is better able to improve society through having the freedom to operate with the best interest of society in consideration.

A state centered approach focuses on the beneficial role states can play in shaping international trade policy, there are several criticisms of the approach. One of the biggest weaknesses of the approach is the assumption that states will always act in the best interest of society.[56] In many cases, there are no incentives for national policymakers to behave in ways that benefit society, particularly in situations where a state an autonomous head of state. There is currently not a sufficient explanation offered in the state based approach. Also, the idea that states are completely insulated from domestic pressures such as interest groups is not entirely correct. It would be completely impossible to fully insulate policymakers from domestic preferences of interest groups or factors. A society based approach is too generous in its assumption of interest group involvement while a state based approach is too restrictive in its explanation of how interest groups can be involved in the policy formation process.[57] These two weaknesses in a state based approach demonstrate that a combination of a society based approach and a state based approach would provide the most accurate representation of how trade policies are formed.

Agricultural Trade Policy Formation

As Jensen and Mi Jeong Shin state in their article, "Globalization and Domestic Trade Policy Preferences: Foreign Frames and Mass Support for Agriculture Subsidies," agricultural trade negotiations have always taken an imperative place in international trade politics.[58] Negotiations over agriculture are considered to be one of the key reasons for why there is

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[56] Oatley, 111
[57] Oatley, 111
[58] Jensen, Nathan M., and Mi Jeong Shin. "Globalization and Domestic Trade Policy Preferences: Foreign Frames and Mass Support for Agriculture Subsidies." *International Interactions* 40.3 (2014): 305-24. EBSCOHost. Web. 3 May 2016. 306

currently some international trade deadlock. There is not complete interest in reforming agricultural trade policy and liberalizing trade in agricultural products because developed countries around the world have consistently shown support for protectionist measures in agricultural trade. The Uruguay Round of trade negotiations and the following Doha Round of trade negotiations have attempted to fix the issue of agricultural protection around the globe, but the industry remains highly protected. For example, the European Union agricultural protection amounts to 22% of gross farm receipts, higher than the Organization for Economic Cooperation and Development (OECD) average for its members.[59]

There are two main reasons that economists use when demonstrating why agriculture is more protected relative to other industries. First, economists have pointed out that the economic structure within is a country is important in determining whether or not agriculture is protected. Secondly, economists emphasize the ability of farmers to surpass the collective action problem better than consumers. [60] The collective action problem cannot completely explain the widespread nature of agricultural protection in advanced countries because countries with varying political institutions and agricultural preferences still result with similar forms of protection for agriculture. Democracy and elections for policymakers play important roles in the development of agricultural policy, but the many variations of democracy and electoral rules do not effectively explain the commonality of agricultural policy across these advanced states.[61]

For the Common Agricultural Policy in particular, a combination of aspects from both the society-based approach to trade policy formation and the state-based approach to trade policy formation are present. Farmers constitute one of the most powerful interest groups in the EU, and their ability to overcome the collective action problem when there are upwards of 172 million

[59] Jensen and Mi Jeong Shin, 307
[60] Jensen and Mi Jeong Shin, 307
[61] Jensen and Mi Jeong Shin, 308

farmers working in the EU today is remarkable.[62] Farmers exercise considerable influence in national and supranational politics because of the importance of the agricultural sector and farmers' ability to organize. The society-based approach use the sector model to explain how the CAP is concerned with providing income support to all farmers, including both the large, efficient farms with plenty of capital and smaller, capital-needy farms. In this case, both large, corporate producers and small, family farms benefit from the protection introduced through the CAP. The sector model also efficiently explains specific member states' preferences in regards to the formulation and reform of the CAP, and the Franco-German relationship is strong example of how two states can have differing preferences. France is one of the leading agricultural powers in the world, and French preferences in EU negotiations over the Agenda 2000 have continually shown a French interest in resisting the trade liberalization preferences of other member states such the United Kingdom.[63] Germany on the other hand is one of the leading industrial powers in the world, and along with the United Kingdom is one of the largest net contributors to the CAP. The CAP uses subsidies to benefit French agriculture at the expense of the non-agricultural industries in net contributors to the policy, demonstrating the competition across industry lines as explained through the sector model of the society-based approach.

The state-based approach explains why the CAP was originally implemented. In the wake of World War II, Europe needed to rebuild its economic sector to be able to provide a consistent food source while protecting farmers from threatening international competition.[64] After the devastation of infrastructure, population, and societal organization, recreating a successful agricultural sector in Europe was imperative to the reconstruction of the continental economy.

[62] Oatley, 80
[63] George, Stephen, and Ian Bache. "Agriculture." Politics in the European Union. 3rd ed. Oxford: Oxford UP, 2011. 370-83. Print. 371
[64] George and Bache, 370

French policy preferences again became important in the development of the EEC and the CAP. State intervention in the agricultural sector allowed for French and European farmers to sell their produce at prices above what they would get in a liberal market. This allowed additional income to be invested in the farm while also implementing better forms of farm production because of the incentive structure of the CAP that pushed farmers to maximize production in order to maximize their returns from the subsidies[65]. In this quasi-infant industry case, state intervention allowed for the protection of a recovering industry. The state based approach does not explain the continued use of the CAP after the initial recovery period, however, so the sector model of the society based approach does a better job of accommodating the ability of farmers to influence policy makers and continue the protectionist policy for such a long period of time.

Gerry Alons in his paper, "European External Trade Policy: The Role of Ideas in German Preference Formation," makes the argument that both internal and external pressures drive the preference formation of individual member states of the European Union.[66] Internal pressures for member states of the European Union are represented in the political, economic, and ideational forces within the state. External pressures can be long standing international relationships between states such as the Franco-German relationship or United States trade liberalization demands.[67] In most of the previous literature, emphasis has been placed on the importance of political and economic considerations in the development of trade policy. There are situations, however, where a political or economic explanation cannot accurately portray the complete policy formation process. In these situations, ideas such as national or regional identity can influence the development of trade policy. In the European Union and particularly France, for

[65] George and Bache, 371
[66] Alons, Gerry "European External Trade Policy: The Role of Ideas in German Preference Formation," *Journal of Contemporary European Research*. 9 (4), (2013) pp. 501-520.
[67] Alons, 505

example, a historical understanding that the well-being of farming and farmers is imperative to the success of continent is one of the aspects in the formulation of the Common Agricultural Policy.[68]

For the EU-15 states, access to additional funds through the CAP over decades has created an advanced agricultural sector with large, exporting farms mixed with productive family farms. Depending on the country, the constitution of the agricultural sector can vary from primarily family based farms in France to large, industrial farms in the United Kingdom. Since most of the large farms were overproducing under the price-supporting measures of the CAP that existed before the shift to a system of direct payments, a reform of the CAP was needed, and the EU-15 states took the opportunity to implement their policy preferences before enlargement of the EU.[69] As the CEE-NMS prepared for accession, the budget concerns of implementing the price-supporting measures for both the large, formerly collectivized farms and the small and numerous peasant farms in these new member states projected to be unbearable for the net contributors in the EU-15.[70] Rather than extend a policy that was relatively unneeded by 2004 to the CEE-NMS and risk increasing the cost of the CAP by extreme proportions, the EU-15 decided to completely decouple the CAP from production subsidies and towards income support while introducing increased spending on rural development and environmentally sustainable farming practices. Without considering the needs of the CEE-NMS, the EU-15 implemented a reform that fit well with encouraging investment in agriculture in their countries without planning for how the system of direct payments would be used in the CEE-NMS.[71] Also, the EU-

[68] "The Common Agricultural Policy: A Partnership between Europe and Farmers." European Union. 2012. Web. 14 Sept. 2015.
[69] George and Bache, 376
[70] George and Bache, 376
[71] Gorton, Hubbard, and Hubbard, 1308

15 forced the CEE-NMS to accept a substantially smaller percentage of CAP funds, thus further enlarging the disparity between the support received by EU-15 states and the CEE-NMS.

For the CEE-NMS, economic and political considerations are a driving force in the development of their trade policy preferences. Almost all of the CEE-NMS prefer a continuation of the budget of the CAP while resisting the renationalization of agricultural policy.[72] Most of the CEE-NMS are beneficiaries of the CAP because of the developing nature of the agricultural sector in many of these growing economies. Also, many of these states are against further "greening" of the CAP, requiring a percentage of the direct payments given to individual farmers to go towards implementing sustainable farming practices, because they fear that agricultural production could be compromised in their still developing sector.[73] Environmental concerns are not as important in the CEE-NMS as they are in the EU-15 because the CEE-NMS are more concerned with closing the gap between the efficiency and effectiveness of the EU-15 and themselves. Policy preferences of the CEE-NMS differ from the EU-15 because there is a discrepancy in the level of development between the agricultural sectors of the two groups, and the CEE-NMS have used their leverage in CAP reform negotiations to project these preferences into the policy, demonstrating the importance of farmers and the development of their agricultural sectors as explained through the society based approach to trade policy and trade policy preference formation.

These two differing trade policy preferences and the advantaged positon of the EU-15 in the formation of the CAP have created a natural disparity between the levels of support received in the EU-15 states and the CEE-NMS. Not only are the amount of funds received by the EU-15 drastically more than the funds allocated to the CEE-NMS, but the focus of the CAP is not

[72] Kosior, 140
[73] Kosior, 140

particularly geared towards the preferences of the CEE-NMS. Rural development and environmental concerns are not as much of a priority to the developing CEE-NMS, so the implementation of the "greening" of the direct payments and the increased focus on sustainable farming measures and off-farm employment opportunities are seen as poorly geared towards agricultural sectors that are trying to close the gap in production between themselves and the more advanced EU-15. The history of the CAP demonstrates the priority of the preferences of the EU-15 states and how they influenced the development of a policy poorly suited to the needs of the agricultural sectors of the CEE-NMS.

History of the Common Agricultural Policy

Creation of the CAP

After World War II, Europe was completely devastated by the destruction of their infrastructure and key industries. One of the industries hit hardest by the turmoil of war was the agriculture sector. The years after World War II saw food shortages, and the empty stomachs of the population put agricultural policy on the minds of the national leaders invested in the European integration project.[74] The original members of the European Economic Community (EEC) agreed that consistent production of food and stable farming incomes were needed. France was particularly invested in increasing agricultural production while protecting farmers because the rural communities of France are integral to the France's national identity. Large and small farms alike were on the minds of French policymakers as a comprehensive agricultural policy was being negotiated. In exchange for French products joining the new European single market, the French received concessions that subsidized their small farmers and guaranteed protection for their agricultural exports, demonstrating French policy preferences for protecting the family nature of farms.[75]

The Treaty of Rome of 1957 included a common policy for agricultural production. The six original members of the EEC, France, West Germany, Belgium, Luxembourg, Italy, and the Netherlands, recognized that price levels for agricultural products would differ from country to country, so price support measures constituted the main body of what became known as the Common Agricultural Policy (CAP).[76] Until the 1980's, the CAP functioned as a price-supporting policy where the Ministry of Agriculture would set a price level for agricultural

[74] George, Stephen, and Ian Bache. "Agriculture." *Politics in the European Union.* 3rd ed. Oxford: Oxford UP, 2011. 370-83. Print. 370
[75] George and Bache, 371
[76] "The Common Agricultural Policy: A Partnership between Europe and Farmers." European Union. 2012. Web. 14 Sept. 2015.

products for the given year. The EEC would intervene and buy enough products to ensure that dictated price level would stay established, and the Ministry of Agriculture would push the products back onto the market if prices rose above the intended level.[77] The process for determining prices was influenced by the desire to provide a livable income to the poorest farmers in the Community. The largest farms took advantage of the policy and maximized production, thus maximizing their access to subsidies. The incentive structure was to overproduce, and surpluses became the norm for most agricultural products. The EEC had no choice but to buy the surpluses and put them in storage, raising the costs of the policy to the EEC budget.[78]

The creation of the CAP represented the agricultural policy preferences of the original six founding member states, particularly France and Italy. In the wake of World War II, agriculture in these states needed subsidies to help stimulate the recovery of European agriculture in the face of uncertainty over the ability of Europe to produce enough agricultural produce to fulfill demand of EEC consumers. The preferences of the founding members reflect the infant industry case as outlined under the state-based approach to trade policy formation. In this case, the devastation of World War II created a situation where state intervention through price-supporting subsidies can protect the recovering agricultural sector from competition from the unscathed agricultural sector of the United States. The policy had the consequence of creating an incentive structure for large, efficient farms to overproduce in order to maximize their returns from the policy, and the need for reform became clear as the policy aged.

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[77] George and Bache, 371
[78] George and Bache, 371

Mansholt Reforms

Sicco Mansholt, the Commissioner overseeing agriculture in the late 1960's acknowledged that the surpluses were being caused by overproduction from large, efficient farms, so he introduced the first attempt at reforming the CAP in hopes of redistributing the large farms into smaller, less efficient farms.[79] These less efficient farms would not overproduce to the same extent as the larger farms, but an economic recession in the 1970s destabilized Mansholt's attempts at reforms. Mansholt failed at reforming the CAP, and the price-supporting measures remained because of the considerable political influence of farmers in Europe. These price settlements became a huge strain on the now named European Community's (EC) budget with West Germany and Britain, two industrial powers, as the biggest net contributors.[80] West Germany and Britain's preferences in regards to the CAP depended on removing the extraneous costs attached to the overproduction of agricultural products. As the two biggest contributors to the policy who disadvantaged their more competitive industrial sectors by allocating national resources towards supporting the CAP, the two countries were interested in creating a compromise that allowed farmers to have a stable source of income while limiting the unintended additional consequences to the CAP. France, however, was interested in protecting the organization of the CAP because the French agricultural sector was the biggest beneficiary of the policy.

Since Mansholt's plan failed to reform the CAP, the problem with surpluses continued and worsened. Rather than just having the products wasting in storage and adding to the cost of the CAP, the EC decided to begin "dumping" these surpluses onto the global market. The CAP promised higher prices to EC farmers for their goods than what was offered on the world market,

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[79] George and Bache, 371
[80] George and Bache, 371

so the EC decided to pay the farmers the difference between what the good sold for on the market and the promised price level for the good.[81] With so many additional agricultural goods on the global market, the prices of the products dropped and influenced competing agricultural exporters to introduce their own subsidies in order to successfully compete with these EC surpluses. External pressures from competing countries such as the United States finally pushed the EC to reform the CAP in the 1980's.

Mansholt's failed attempts at reform represented the changing policy preferences of the new expanded EC. As the cost of the CAP rose dramatically because of the additional costs of storing surplus produce, many of the member states' preferences changed because of the cost of the policy. Net contributors such as West Germany were especially invested in reforming the CAP because the cost only projected to rise as the policy went forwards. Also, other competing countries such as the United States began to implement agricultural subsidies in order to compete with the EC dumping surplus produce on the open market. External pressures began to press on the EC's agenda of reform. Changes in the global market led to the ultimate failure of these reforms, but it became clear to the member states that reform would be needed in the near future as their preferences began to change.

Reforms of the 1980s

In 1984 the EC decided to reform the CAP by introducing a system of quotas for dairy products. Four years later, the EC implemented a limit on the price support measures and fixed increases in the future at a maximum of 74% of the increase in the Community GDP.[82] If there was a situation where this maximum was compromised, price cuts for certain products became required until the 74% ceiling was no longer compromised. In addition to a price cap, money

[81] George and Bache, 372
[82] European Commission. Ministry of Agriculture. *1986/87 Agricultural Prices : Reform of the CAP. Press Release Database.* European Commission, 1 Feb. 1986. Web. 8 May 2016.

from the CAP budget was allotted to farmers to incentivize them to place aside land and not use it for production.[83] These reforms helped limit the surplus problem, particularly in respect to dairy products, but these reforms did little to change the fundamental character of the CAP. These minor reforms did just enough to curb the rapidly rising cost of the CAP, and the restriction of costs demonstrated the policy preferences of the United Kingdom and West Germany. These states were particularly interested in limiting the unnecessary costs of the policy, and they pushed for the reforms as the cost of the CAP jumped by extremely high percentages over several years in the 1980s.

The preference adjustment that led to the attempted Mansholt reforms continued to occur and pushed the creation of the reforms of the 1980s. Although these measures were relatively small and mitigated by the influence of strong member state preferences such as French interests in protecting the price-support subsidies given to the family farms that constituted the majority of French agricultural structure, the reforms were the beginning of the restriction of the cost of the CAP and reflected the influence of new contributing states such as the United Kingdom. These reforms set the stage for the gradual progression of the CAP from a price-supporting policy to an income supporting policy as the member states realized that the cost of the CAP was becoming unbearable. This policy change also demonstrated the growing influence of West Germany in trade policy formation as the West Germany economy began to grow into the industrial power that is today.

MacSharry Reforms

Commissioner MacSharry, the Irish European Commissioner at the time, introduced a new package of reforms in 1991. The "MacSharry Reforms" as they became known as included a steep decrease in the prices for beef and cereals, a transition from price-supporting measures to

[83]European Commission

transferring lump sums to directly support agricultural incomes, a retirement scheme geared towards encouraging older farmers to retire, and an incentive package to produce more environmentally friendly products.[84] There were many opponents to the reform that claimed that the CAP would be even more expensive because of the new measures, but ultimately the MacSharry reforms demonstrated that farmers could be supported through other measures besides price-support.

By 1991 and 1992, there were four main pressures that pushed the EC towards reforming the CAP. First, the budget issues resulting from the CAP resumed after a period of abatement in the 1980s because the United States had introduced subsidies for their own agricultural products, thus lowering world prices and widening the gap that the CAP had to fill between world prices and the adjusted EC price.[85] Secondly, Germany reunified after the fall of the Soviet Union, adding large amounts of agricultural land that would begin to overproduce their goods because of the incentive structure of the price-supporting measures. Thirdly, the newly democratic former Soviet satellite states required currency to be able to replenish their stripped industries. The CAP did not allow for the importation of central and eastern European agricultural products, thus increasing the difficulty of these future member states to accumulate currency with which they could buy the capital required to develop their agricultural sectors.[86] Finally, the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) was not making any progress in negotiations between the EC and the United States led Cairns Group. By 1992, progress was

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[84] European Commission. Ministry of Agriculture. *The Development and Future of the Common Agricultural Policy : Proposals of the Commission of the European Communities. Press Release Database*. European Commission, 9 July 1991. Web. 8 May 2016.
[85] George and Bache, 372
[86] George and Bache, 372

insufficient and the United States became able to directly negotiate with the EC, pushing pressure on them to liberalize trade in agricultural products.[87]

The cost of the CAP has always been a difficult problem for the EC. In the period from 1974 to 1979, the cost of the CAP rose by a staggering 23%, an increase twice the size of the increase in incomes. In the early 1980s, the cost of the CAP stabilized, but in 1983, the CAP's cost skyrocketed by 30%.[88] The EC had reached its limit of the cost of the CAP that could be provided by EC funding. In order to bypass the limit, all member states had to agree, but the British government refused to comply with lifting the limit unless changes were made to the CAP. British demands ultimately led to the introduction of the dairy quota in 1984 and the new maximum limit on EC spending on the CAP. The ultimate issue of overrunning the budget for the CAP continued to plague the EC, and only some imaginative accounting methods helped alleviate the short term effects of these overruns.[89] The cost of the policy was becoming unbearable, and potential enlargement loomed over the CAP as a budgetary problem on the horizon. A reunified Germany and the United Kingdom pushed heavily for reforms as the EC became aware of just how costly the accession of the future CEE-NMS would be if they received access to the price-supporting measures of the CAP. This recognition of added cost was the driving force behind the commencement of the "decoupling" of subsidies from agricultural production, an important change because of pressure from the United States to liberalize trade policy, the mitigation of added costs from the future CEE-NMS attached to subsidizing production, and the representation of preferences from agricultural powers such as France to continue protecting farmers and their incomes while accommodating the preferences of Germany

[87] George and Bache, 372
[88] George and Bache, 373
[89] George and Bache, 373

and the United Kingdom to shift costs from the more unpredictable, skyrocketing production subsidies to a safer system of direct transfers.

Another issue that drove the reforms of 1991 forward was the accession of the southern European states of Greece, Spain, and Portugal. The decision to admit these states was primarily focused on incentivizing the creation of stable democracies in each of these states after periods of dictatorship.[90] One consequence of admitting these states was that new demands were now placed on the budget of the CAP. These three new states used their pooled leverage to wrestle a doubling of structural funds from the EC budget, thus pulling money away from the CAP.[91] Additionally, German reunification added large areas of agricultural land, and these farmers gained access to the CAP that incentivized them to overproduce to gain maximum benefit from the CAP subsidies. As former communist central and eastern European states began to clamor for inclusion and interaction with the EC, the EC members acknowledged that EC membership would have to be extended to these states at some point in the future.[92] This future enlargement created daunting prospects for the cost of the CAP if the policy were to continue forward without reform. Enlargement played a key role in driving forward the 1991 reforms of the CAP.

Since the incentive structure of the price-support measures of the CAP created situations where large, efficient farms attempted to maximize production to receive maximum benefits from the subsidies, these large farms pumped their livestock full of growth hormones and laced the ground with as many fertilizers and pesticides as possible.[93] The strain on the environment created a growing concern of the environmental aspects of farming. This newfound focus on environmental concerns contrasted the already existing support for farmers in the European

[90] George, Stephen, and Ian Bache. "Enlargement." Politics in the European Union. 3rd ed. Oxford: Oxford UP, 2011. 531-50. Print. 531
[91] George and Bache, 374
[92] George and Bache, 374
[93] George and Bache, 374

Union, and policymakers discovered that there was not as much pushback from the general public when it came to agricultural reform. In the late 1980s, several scares about the safety of EC food products occurred that pushed support for farmers even lower. The biggest scare was an outbreak of mad cow disease that occurred in the United Kingdom around 1992.[94] These animal welfare, food safety, and environmental concerns became attached to the system of price-support and overproduction, and reforming the CAP to change the incentive towards non-damaging methods of farming became popular in many EC member states.

Finally, many external pressures pushed the EC to consider radically reforming the CAP. During the Uruguay Round of the GATT trade negotiations, the United States put the removal of agricultural subsidies at the top of its trade agenda, demonstrating the attitude that EC dumping of surplus products on the open market hurt the United States and many other countries' agricultural product competiveness.[95] When the MacSharry reforms passed into effect in 1992, Commissioner MacSharry could then negotiate a deal where the United States and the EC moved away from price support subsidies and towards other, non-trade distorting methods of supporting farmers. After the talks were concluded and a deal in place between the two agricultural powers, another set of talks was opened to further negotiate on agricultural subsidies. The United States quickly and unilaterally removed all price-supporting subsidies besides those on cereals and livestock as agreed upon in the Uruguay Round, but the EC lagged behind in removing the price-supporting measures.[96] Now the pressure was on the EC to mirror the unilateral subsidy removal that the United States had implemented earlier.

The four pressures that pushed Commissioner MacSharry to reform the CAP demonstrated the influence of the EU-15 on the reform process of the CAP. These four pressures

[94] George and Bache, 374
[95] George and Bache, 375
[96] George and Bache, 375

required the CAP to be reformed, and the EU-15 reformed the CAP with their preferences in mind even though the EU was going to be rapidly expanded. The EU-15 saw the agricultural nature of the CEE-NMS and decided to switch the CAP to a policy that better supported their interests. Price-supporting measures were costly and unnecessary because prices in the developed EU-15 were relatively stable and the accession of the CEE-NMS would introduce an extremely expensive expansion of the EU. The system of direct payments was implemented to support farming incomes and encourage investment in agricultural capital by farmers. They did not take into consideration how the direct payments would be implemented in the structurally different CEE-NMS, and they did not care in the first place. They decided to extend a take it or leave it offer to these states and forced the CEE-NMS to prepare for the eventual implementation of a policy not created with their interests in mind.

Fischler Reforms

In the face of growing pressure to further reform the CAP, Franz Fischler, the Agriculture Commissioner at the time, introduced a new series of reforms in 1995. These reforms aimed to finalize the process of decoupling support for farmers from production and then attaching the support to further social and environmental goals. These initial steps set the stage for the creation of a more complete package of agricultural reform that was to occur in 2000 and 2003 in the face of the accession of the former communist central and eastern European states. The MacSharry Reforms of 1992 and the Fischler reforms of 1995 did not take into consideration the preferences of the CEE-NMS. Rather than include the CEE-NMS, the EU-15 used their leverage as already existing member states to create a package of reforms that fit their preferences while demanding changes within the CEE-NMS. The CEE-NMS were at a complete disadvantage in negotiations, and this lack of representation of their preferences also showed in the negotiation of the next round of reforms.

Agenda 2000 and Mid-Term Review of 2003

Agenda 2000 was the next reform to the CAP as the EU prepared for the eventual accession of the central and eastern European former communist states and the Mediterranean states of Cyprus and Malta. The reforms to the CAP proposed by the EU were relatively clear. Agenda 2000 proposed substantial cuts in supporting prices and shifted compensation into direct payments given to individual farmers with a limit set on the amount an individual could receive.[97] These measures were in line with moving the CAP away from price-supporting measures as negotiated with the United States at the Uruguay Round. The Agenda, however, still had to survive the negotiation process between individual member states, and France in particular had an interest in weakening the strength of the reforms in order to ensure some protectionist measures remained. After a rough period of negotiation that included a massive demonstration in Brussels by farmers, delays were included in the implementation of the agreed upon price cuts for cereals, milk, and beef products. [98]

France was the driving factor in pushing through delays in the implementation of the reforms. Most of the measures included in the Agenda 2000 reform were either only portions of what the Ministry of Agriculture proposed or were pushed back through delays for several years.[99] France was not finished compromising the original package, however, as the French President, Jacques Chirac, rejected what the French government had negotiated. Rather than compromise their close-knit relationship with France publicly, the German administration of the EU introduced further measures to weaken the impact of the Agenda 2000 reforms. An

[97] George and Bache, 376
[98] George and Bache, 376
[99] George and Bache, 376

additional period of delay was added to the dairy reforms, and the cereal cuts were reduced further beyond the previous agreement percentage.[100] The other member states, particularly those that were net payers to the CAP, were bought off through the promising other subsidies such as increased structural funds. The nature of the Agenda 2000 was compromised by the refusal of the French to accept what had previously been negotiated, thus demonstrating the idea that a single, powerful member state such as France could use its leverage to implement its policy preferences individually into a policy such as the CAP.

The Agenda 2000 reform was a continuation of the idea introduced during the 1992 reforms that the CAP subsidies needed to be decoupled from production measures. In 2001, Commissioner Fischler pushed an additional reform through the EU negotiation process that simplified the increasing complex system of direct payments for small farmers who would receive less than 1,250 euros from the CAP.[101] Under this Small Farmers' Scheme, smaller farmers could choose to receive a single flat rate sum based on historical values of the farm. The system of flat-rate decoupled payments became further incorporated into the CAP.

Single flat rate payments became the answer to the large agricultural sectors of the central and eastern European countries that were preparing for accession to the EU. The price-supporting measures of the CAP dictated that the budget for the policy would be unable to support the additional land used for farming in these states. The process of direct payments at this time was also exceedingly complicated, and the infrastructure and the governments of the states would be unable to effectively gain access to vary degrees of direct payment support.[102] With these concerns in mind, the CAP was further reformed to offer a Simplified Approach Payment Scheme (SAPS). Each farmer would receive a flat-rate, decoupled payment that started

[100] George and Bache, 376
[101] George and Bache, 377
[102] George and Bache, 377

at 25% of the support given to the already established EU member states.[103] The payments would be given directly to each state, and the state government would have the freedom to distribute the money according to their own needs and agendas. The SAPS system was built to accommodate the projected inability of farmers to implement the complex arrangements negotiated into the system of direct payments. The SAPS is heavily favored by the CEE-NMS, and their preferences in protecting this policy have been demonstrated by these states continual desire to extend the length of the SAPS.

In 2002, Fischler decided to try to end the production-supporting measures of the CAP in its entirety. The Commissioner proposed a reform that called for the complete decoupling of agricultural subsidies by the end of 2004.[104] The level of money received by the member states would be the same as under the Agenda 2000 reforms, but the states would receive the money as a lump sum payment. The governments then established their own criteria for distributing the funds as long as the funds did not support production stimulating measures. Individual countries could use the funds to either appease their large farmers or to encourage agricultural restricting along more efficient lines. In order to receive these payments, standards for environmental protection, food safety, and animal welfare had to be met. This new system of lump sum payments came just in time to secure that the accessing central and eastern European countries would be integrated into the same system of agricultural support that the EU-15 would receive while also allowing individual countries to distribute the funds according to their differing national needs.[105]

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[103] George and Bache, 477

[104] European Commission. Ministry of Agriculture. *CAP Reform: "Proposals Boost Less Intensive Farming and Secure Income Rises for Farmers", New Studies Say. Press Release Database.* European Commission, 25 Mar. 2003. Web. 8 May 2016.

[105] European Commission

After a lengthy period of negotiation, the Council of Agriculture Ministers reached a proposal that satisfied all parties. Fischler's proposal was adopted in its core form, but the implementation of the system of direct payments was delayed until 2005 and member states could apply for the continuation of some price-supporting measures until 2007 in the situations where famers would cease production without the subsidies.[106] After 2007, the full decoupling of agricultural support had occurred, and a "health check" of the CAP was measured in 2008. This analysis of the state of the CAP concluded that more money was to be distributed to the rural development aspects of the CAP while further liberalization of the dairy sector needed to occur before the expiration of the milk production quotas in 2015.[107]

The EU-15 barely accommodated the needs of the CEE-NMS, and France hijacked the policy reform process as well. The only successful aspect of this reform for the CEE-NMS was the creation of the SAPS that eased the issues with the complexity of the direct payment system for the CEE-NMS. The delays in the introduction of the complete decoupling of agricultural subsidies from price-supporting measures to income-supporting measures demonstrated the French interests in protecting their family farms. Not only were the CEE-NMS forced to accepted the "phasing-in" of direct payments, the redistribution of more funds to the rural development and environmental aspects of the CAP did not represent the preferences of the still developing CEE-NMS. These states needed more funds to invest in their agricultural production, and rural development and environmental measures were considered to be a less useful way of spending CAP funds. The measures agreed upon in the Agenda 2000 and Mid-Term Review of 2003 reforms reflected the preferences of the EU-15 in protecting their advantaged place in the

[106] George and Bache, 378
[107] George and Bache, 378

allocation of CAP funds while creating unintended consequences stemming from the implementation of the CAP in the CEE-NMS.

2013 Reforms

In 2013, a new debate over reforming the CAP came into focus as the EU began to launch the "Europe 2020" plan that prepared the EU for the challenges that were to come over this upcoming period. Starting with a public debate over the CAP that began in 2010, the process of reforming the CAP took several twists and turns over a two year period where the exact reforms to the policy were to be determined. In October, 2015, a political agreement between the member states was reached that outlined the changes that would be made to the CAP.[108]

The first reform was the limiting of direct payment disparities between member states. The SAPS was extended until 2020, and methods of internal and external convergence between values given in direct payments were included. Other measures such as additional payments to young farmers and the "greening" of direct payments that required 30% of the direct payment to go towards environmental and clean farming practices were included.[109] The second area of reform was concerned with balancing the market mechanisms of the CAP, particularly the ending of the sugar quota and amendments to the single market mechanism of the EU in the face of increased competition on the international markets. The third area of reform focused on increasing the amount of the subsidies given for encouraging rural development with an emphasis on underdeveloped regions of the EU. The fourth and final area of reform established increased controls for monitoring the subsidies given by the CAP and the requirements for receiving them.[110] All of these reforms combined to equalize the system of direct payments while

[108] European Commission. Ministry of Agriculture. *CAP Reform – an Explanation of the Main Elements. Press Release Database.* European Commission, 25 Oct. 2013. Web. 8 May 2016
[109] European Commission
[110] European Commission

incentivizing clean farming, environmental concerns, and rural development. The CEE-NMS preferences showed in the future limiting of direct payment differences between the former EU-15 states and the CEE-NMS. In exchange for this reduction of direct payments disparities, the CEE-NMS agreed to the "greening" of the CAP even though the CEE-NMS are wary of the limitations on production imposed by the greening process. Other concessions include increased rural development spending, but the CEE-NMS would rather focus on investing those funds in more farming-intensive projects. The last concession was the implementation on further controls and oversight on how the CAP funds are distributed, thus adding more influence to the supranational regulatory powers of the EU.

How the CAP Operates Today

The CAP is currently a system of direct payments decoupled from production that are combined with funds given for rural development. The CAP is primarily focused with providing farmers with a secure, livable income with stimulating invest on and off the farm and in the community. The CAP is considered a living policy that can be reformed to fit the needs of the member states in the current period, but the policy has shown to be difficult to change because of the varying preferences of the individual member states within and outside the EU.[111] The CAP has had many unintended consequences and has been implemented differently in each country.

The CAP has become the policy it is today because of the influence of trade policy preferences. The two different approaches to trade policy formation, the society based approach and the state based approach, can explain how the preferences for the policy were formed in both the EU-15 states and the CEE-NMS. The state based approach explains infant-industry case which can be used to illustrate both the creation of the CAP in the wake of World War II and the strong desire for the formerly communist CEE-NMS to receive protection to jumpstart their

[111] George and Bache, 370

disadvantaged agricultural sectors. The society based approach can be shown to have influenced the development of the system of direct payments. The sector model demonstrates that industries compete along industry lines, so the direct payments given to the large, efficient farms that own most of the capital in the EU benefit both the owners and labor employed on the farms. The cost of the agricultural subsidy is carried by consumers who struggle with the collective action problem and competing industries who do not receive support from the EU. The theories of trade policy formation have influenced the preference formation and the changes in preference over time for the EU-15 states and the CEE-NMS.

The varying preferences of the former EU-15 and the CEE-NMS have created a policy that is heavily debated as the EU-15 push for more environmentally conscious measures in the face of CEE-NMS preferences for increased investment in agricultural production. In the case of Poland, the CAP has been an extremely important policy that has influenced structural changes in farming and the agricultural sector. Since Poland has a unique history of partial collectivization under communist rule, the effects of the CAP have been different than the formerly fully collectivized states and states with a high percentage of family farms. Poland will be used as a case study to examine how the CAP interacts with a country that has a diverse agricultural sector.

The CAP and Poland

Poland is an interesting case in regards to the implementation of the CAP in the CEE-NMS. Poland, like most other central and eastern European states, created a system of peasant farming in the aftermath of World War II, but only a decade passed until Soviet involvement created communist governments in many CEES. Poland, along with Yugoslavia, never actually completed the collectivization process, and a mixture of few, large state farms mixed with plentiful small, peasant farms combined to make a diverse agricultural sector that was unique for the states under Soviet influence.[112] With the fall of communism in 1989 and the rise of Polish democracy, Poland looked longingly at access to the common market and policies of the EU. Poland, along with the other CEE-NMS, began making preparation for accession to the EU. After accession of the CEE-NMS in 2004, Poland received agricultural support measures from the CAP, and the CAP has had many effects on the development of Polish preferences, agricultural structure, competitiveness, and budgetary concerns. The influence that the EU-15 members have had implementing their policy preferences into the CAP without Polish interests in mind has created many problems with the implementation of the CAP in the country, particularly the use of direct payment funds for consumption needs rather than for investment and the forced spending of these funds on environmental and rural development measures when they could be better used to stimulate further production.

In Katarzyna Kosior's article, "The Impact of Central and Eastern Europe on the Common Agricultural Policy", the author analyzes the impact of the group of eastern European nations on the CAP and vice versa. In Poland, as in many other eastern European states,

[112] Swain, Nigel. "Agriculture 'East of the Elbe' and the Common Agricultural Policy." *Sociol Ruralis Sociologia Ruralis* 53.3 (2013): 369-89. EBSCOHost. Web. 2 May 2016. 371

ascension to the European Union meant access to the CAP. The reason why Poland is so attracted to gaining access to this specific policy is because of the size and scope of the agricultural sector. Farmers serve as a large percentage of the electorate and they have consistent proven their ability to communicate and organize collective action.[113] Specifically in Poland, the Polish Peasant Party has been part of a governing coalition four times since 1989, despite lackluster success in the primary elections. Between 2005 and 2007, the nationalist Law and Justice party governed in a coalition with the populist Self-Defense of the Republic of Poland. Defending farmers is an important political concern across the spectrum of political parties not only in Poland, but in the other eastern European countries with significant percentages of their population employed in the agricultural sector.

The preferences for the CAP displayed by eastern European countries are based on two underlying reasons: social welfare concerns pushed by political pressures and the desire to make agriculture more modern and competitive in the EU and international markets.[114] Since Poland has a large number of subsistence and semi-subsistence farms, Poland along with other eastern European countries are less likely to desire targeted farm payments. This policy preference has been particularly evident in countries with small scale farming with the most notable example being Poland. The expectation is that the CAP will provide sufficient support for farming incomes and protection for the less successful farms. As a result of this expectation, the CAP has developed into an integral welfare state policy and an important supplement to domestic welfare policies.[115] Since Poland is not as wealthy as the western European Union member states, its ability to support agriculture and rural life is more limited, and this external source of financing

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[113] Kosior, Katarzyna. "The Impact of Central and Eastern Europe on the Common Agricultural Policy." *Romanian Journal of Political Science*: 116-46. JSTOR. Web. 125
[114] Kosior, 126
[115] Kosior, 126

agriculture is much needed. The changes at the national level since accession to the European Union are attention deserving.

The CAP has obviously brought benefits to the new member states including Poland. Between 2005 and 2012, average incomes of eastern European farmers have increased by close to 60 percent.[116] This development has come even though the eastern European member states have only been receiving a percentage of the support that the older member states enjoy. This increase is eye-opening, but the fact of the matter is that the original starting points for these countries were extremely low. Since the policy, the income distribution between farmers has been growing. The direct payments from the CAP are ending up mostly in the hands of the already largest and richest farmers. In Poland, this is not as much of an issue since large agricultural holdings do not dominate the character of the industry. The continuing high number of subsistence and near subsistence farms has illustrated that even this reduced amount of support from direct payments has been protecting these small farms.[117]

Poland is one of the largest net beneficiaries of the CAP budget, and this favorable position has been evident in its preferences for the current budgetary period of 2014 to 2020. Poland has pushed heavily for the continued strength of the first pillar of the CAP, the system of direct payments to individual farmers.[118] The eastern European member states are interested in recapturing their agricultural production potential since they lost around 15 to 30 percent of agricultural potential during their economic transformation post-communism. Since there is this lost potential, it has been unsurprising that Poland and other eastern European countries have opposed proposals of weakening market intervention methods or with the limiting the direct payment system. In addition to opposing plans to weaken the first pillar of the CAP, Poland has

[116] Kosior, 126
[117] Kosior, 127
[118] Kosior, 127

pushed for maintaining the role of the second pillar and not expanding it. The second pillar of the CAP, rural development, requires national co-financing, and these poorer member states balk at that responsibility. The final position the eastern European countries took on the CAP was the system of basing direct payments on historical yields. This system favored the original member states because the direct payments were calculated using the quantities produced during the difficult times of economic transformation.[119] The eastern European countries are at a disadvantage in the level of direct aid payments, and this system has created a discrepancy between older and newer member states.

Poland has demonstrated specific attitudes on each of these issues. Poland is distinctly against renationalizing the budget of the CAP, and the country would like to see at least the maintenance of the current budget levels.[120] Poland is also strongly against the system of historical distribution because the gap in production between the period used for the distribution and the level of production of Poland today is staggering. Poland is a strong supporter of market intervention policies, and they favor a protectionist approach in the sectors of beef, veal, pork, sugar and milk.[121] In regards to the second pillar of the CAP, Poland believes the agro-food sector should be supported in additional environmental practices. Polish leaders also favor greater flexibility between the two pillars of the CAP, and they would like to use funds from the second pillar to provide greater direct payments to their farmers.[122] Most of these attitudes are similar to other eastern European countries, but there are some minor differences since Poland is at a different stage of development as some of the other countries, notably the Czech Republic.

[119] Kosior, 128
[120] Kosior, 143
[121] Kosior, 143
[122] Kosior, 143

In Hilary and Mark Ingham's article, "How Big is the Problem of Polish Agriculture?," the authors analyze the period before Poland's ascension to the European Union and whether or not the Union and the nation are ready for such a merger. When Poland ascended to the European Union, there were many different aspects of its agricultural sector that created cause for concern. In 2004, the year of ascension, the nature of Poland's agricultural sector was large and semi-subsistence. There was much structural inefficiency that was not addressed during the period of economic transformation. Agriculture was left relatively unchanged during this period. As Poland approached the time of their ascension to the European Union, stimulating agricultural restructuring and promoting rural development were thought to be high on Poland and the EU's policy agendas. Their efforts at the time, however, were lackluster.[123] Poland had several potential issues that needed to be addressed, particularly the structure of their agricultural sector.

Since there is an inverse relationship between agricultural employment and growth that changes the process of economic development, and data that shows that Polish real gross GDP grew by 47.6 percent during the 1990s, it should be apparent that major farm restructuring occurred.[124] This is not the case. The authors demonstrate that there was a 16% change in agricultural employment during the period 1988 to 2000, but it was due to the collapse of state farms. The private sector actually gained employees during this a period, a certain sign that agricultural restructuring did not take place. The size of the agricultural sector included 25% of Poland's total population at this time as well.[125] The number of farms in 2000 was recorded at 1,992,000 private farms with 12.7 percent of these farms producing primarily for their own consumption. Another 37.4 percent of these farms produce primarily for their own needs, but

[123] Ingham, Hilary, and Mike Ingham. "How Big Is the Problem of Polish Agriculture?" *Europe-Asia Studies* 56.2 (2004): 213-34. Print. 213
[124] Ingham and Ingham, 214
[125] Ingham and Ingham, 215

surpluses are sold on the local market. The combined percentages for these extensive styles of agriculture develop a picture of inefficiency in a large amount of farms throughout the country.

With structural aspects of the agricultural sector in mind, Poland prepared to enter the European Union. Poland's demands to the European Union were simple: it wanted full integration of the CAP, the inclusion of Polish agricultural goods in the single market, and the awarding of production quotas at the natural level of production for environment friendly production while ensuring maintenance of stable income sources for the agricultural population.[126] The second two demands were accepted relatively easily, but there was a discrepancy between the wishes of the European Union member states and Poland. In the eyes of the European Union, the direct payments were a compensatory measure to member states that lost the price supports when the MacSharry reforms changed the nature of the CAP. The new member states should not receive these payments since they never originally enjoyed the price support measures.[127] Poland and the other potential member states argued that these supports lost their compensatory nature after ten years, and the European Commission ultimately came to acknowledge this point. Also, since these direct payments were a part of the CAP, refusing to extend them to the new states would belittle the concept of a single, unified agricultural market. The compromise the two sides came to as Ingham and Ingham describe it "was that any candidate country accepted into membership would receive 25% of the full entitlement in 2004, 30% in 2005, and 35% in 2006. After 2006, their payments would increase by ten percentage points each year until 2013, when the new members were to enjoy full support levels."[128] With this compromise, Poland accepted a ten year transitionary period before the CAP could be completely accessed.

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[126] Ingham and Ingham, 225
[127] Ingham and Ingham, 225
[128] Ingham and Ingham, 225

The goal of this compromise in the eyes of the European Union was to limit the potential damage to Poland's agricultural sector that a flood of large income payments would bring. The EU members wanted to slowly progress the Polish economy along without limiting restructuring. Also, a disproportionate income addition to a singular group of the economy was seen to potentially create income disparities and social distortions.[129] The effects of the direct payments, however, would potentially have the effect of limiting agricultural restructuring regardless. Rising direct payments were seen as the means to stabilize agricultural incomes without damaging immediate restructuring and societal stability.

In Marek Wigier's article, "The Competitiveness of Polish Agriculture after Accession to the EU", the author analyzes how Poland's agricultural sector has changed since accession to the European Union. As Ingham and Ingham introduced the structural problems that Poland faced leading up to its accession, Wigier attempts to determine if these issues have been addressed and to describe some of the problems for Poland's agricultural sector on the horizon. Wigier makes the point that the changes in the agricultural sector in Poland seem to be the most significant change since 2004.[130] The author uses the competitiveness and the efficiency of Polish farms to determine their economic health. The most important part of Wigier's research for this analysis is his accounting of the structural changes in Polish agriculture since the accession to the European Union.

The land resources of farms have changed significantly since Poland joined the EU. The total area of land has dropped by over one million hectares of agricultural land. This change can mostly be explained by the increased use of abandoned land for other industries and an overall

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[129] Ingham and Ingham, 225
[130] Wigier, Marek. "The Competitiveness of Polish Agriculture after Accession to the EU." *Ekon Polj Ekonomika Poljoprivrede* 61.1 (2014): 87-102. JSTOR. Print. 87

change in the area of grasslands.[131] Another major structural change is the decrease in the overall number of farms by 22 percent since the accession to the European Union. Also, the distribution of the sizes of farms is changing as well. There has been a decrease of 20 percent in the number of farms less than one hectare in size and an increase in the number of farms over thirty hectares in size. Wigier ultimately concludes that these developments in agricultural structure are positive in nature as bigger farms are typically more efficient than their smaller counterparts.[132]

Even though the author determines that Poland's agricultural sector is moving in a better direction in terms of structure, he deduces that Polish agriculture is in a weak competitive position in regards to its competitive potential. He states, "In 2010, Polish agriculture had its disposal 8.5% of land resources, 18% of labor input, and 5.1% of capital input in the EU-27 agricultural sector."[133] The relatively large amount of land and labor input dominate the lower percentage of capital input. Wigier points out that these percentages are not favorable to high levels of agricultural production. Also, Poland has a relatively small amount of land per agricultural work unit (AWU) when compared to the average of the other members of the European Union. This ratio was 7.7 hectares per AWU in Poland to 16.7 hectares per AWU which is the average of the other states.[134]

Wigier ends his analysis with his conclusion where he states that even though Poland has improved since its accession to the European Union, it is still a state with mostly small farms and inefficiency across its agricultural sector. One of the main weaknesses of the Polish agricultural sector in terms of competitiveness is the concentration of most of the production potential in

[131] Wigier, 91
[132] Wigier, 92
[133] Wigier, 93
[134] Wigier, 93

farms with relatively small scales of production.[135] Since there is weakness in most of the farms in the Poland, this weakness translates to a relatively disadvantage for Poland in the European single market. The CAP has helped stabilize the incomes of farmers in Poland, but Wigier says that there needs to be more progress in terms of structural changes in Polish agriculture. He also makes the statement that Polish agriculture has improved since ascension to the European Union, but Polish goods are still unprepared for open competition on the international markets since there are many similar agricultural producers in the world who do not hold the same positional strength that Poland does with the European common market.[136]

Projections for the future are also interested in whether Poland will be able to generate more productivity and efficiency from its agricultural sector. In an article by Czyzewski and Stepien, "Budget of the EU and Common Agricultural Policy for 2014-2020 in the Light of Polish Interests," the two authors examine the negotiations over the new EU budget and the structure of the CAP. Most of their findings are mirrored in Dora's and Grzelak article, "Conditions for the Development of Polish Agriculture in the Context of Globalization and European Integration," the authors introduce several future influences on Polish agriculture and how they may affect the sector. The goal of their analysis is to determine whether funds allocated to Poland in the European Union budget for the period 2014 to 2020, changes in the CAP, and increased demand for food in developing countries will have a positive impact on the competitiveness on Polish agriculture in the future.

According to the authors, the EU budget only is 1 percent of Europe's combined GNI, so the EU budget in relation to national wealth is small. The EU budget allots 105.8 billion Euros to Poland during the period, and 28.5 billion of these Euros will be used in the Polish agricultural

[135] Wigier, 100
[136] Wigier, 101

sector.[137] In regards to the CAP, Pillar 1 of the CAP will receive 29 percent of the total European Union budget, and Pillar 2 will receive 9 percent of the total budget. As Czyzewski & Stepien have noted, however, is that the percentage of the budget allotted to the CAP is falling while the percentage allotted to the cohesion policy is rising.[138] With the reforms of the CAP in 2013, these funds will go towards addressing the global challenges surrounding agriculture, namely food security, climate change, sustainable economic growth, and rural development. In terms of Polish interests, the country managed to extend the simplified system of subsidies for the new member states until 2020 and to maintain partial national farm aid. The amount of subsidies given to new member states, however, will still not be equal to the amount given to older member states.[139]

The amount of aid given to Poland through the CAP for this period of 2014 to 2020 will nominally increase over the period of 2007-2013. Poland will also be the biggest net beneficiary of the Pillar 2 aspect of the CAP.[140] Poland will also be the sixth biggest receiver of the direct payments under the first pillar of the CAP. As the budget and the CAP show, Poland is a country of emphasis for the European Union as development in Poland is crucial to the agricultural success of the EU as a whole. All indications point to this budget allotment being the last project of its kind, and hopefully a more liberal market will be in place by the year 2020.[141]

There are some interesting dimensions to the budget allotment and the reforms of the CAP. Since this is the last budget allotment of this kind, it is imperative that the funds are spent in a cautious and deliberate manner. Also, since the first pillar of the CAP is aimed at protecting

[137] Dworak, Edyta, and Maria Magdalena Grzelak. "Conditions For The Development Of Polish Agriculture In The Context Of Globalization And European." *Comparative Economic Research* 18.2 (2015): 1-19. JSTOR. Web. 8
[138] Czyżewski, Andrzej, and Sebastian Stępień. "Budget of the EU and Common Agricultural Policy for 2014-2020 in the Light of the Polish Interests*."* *Management* 18.1 (2014): 473-474. JSTOR. Web. 484
[139] Dworak and Grzelak, 8
[140] Dworak & Grzelak, 9
[141] Dworak & Grzelak, 10

the small farmer, this inhibits the development of the best farms. [142] The authors argue that direct payments are used in an efficient manner, serving as part of the fight against rural poverty and not for development of agricultural holdings. Also, the greening aspect of the CAP requires farms to grow at least three different crops which limit the overall production of individual farms by increasing production costs.[143]

The authors also state that the liberalization of trade creates many risks to Polish agriculture, even as developing nations demand more and more food. EU agricultural products, including Polish products, are typically more expensive and not as competitive on the global market. The authors state that "the European model of agriculture may not survive in the era of a globalizing economy dominated by openness, liberalism, and all-encompassing flows of capital, goods, and information.[144] These projections require massive changes on the part of Polish farmers, and it's imperative to isolate and analyze the CAP's role in the vulnerability of Polish agriculture to foreign competition.

Poland's policy preferences are slightly different from the other CEE-NMS because of its unique agricultural diversity and its place among one of the stronger agricultural producers in the EU, but its preferences are much more similar to other CEE-NMS than the preferences of the original EU-15 states. Rather than being focused on the implementation of sustainable agricultural practices and forms of environmental protection, Poland is more interesting in using CAP funds to stimulate agricultural production in its still developing agricultural sector.[145] Poland shares many similarities in terms of preferences with Romania because both countries have extremely high numbers of workers employed in agriculture with many small farms.

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[142] Dworak & Grzelak, 10
[143] Dworak & Grzelak, 11
[144] Dworak & Grzelak, 14
[145] Kosior, 140

Another manifestation of Polish agricultural diversity creating policy preferences is that the large number of small farms and farmers creates a preference for capping the direct payments that large farms can receive.[146] This helps protect the interests of the small farmer by disadvantaging the larger, less plentiful farms in Poland. As outlined in the state-based approach to trade policy formation, Poland is interested in protectionist measures to continue to help their small farms develop. Poland's agricultural sector is still underdeveloped when compared to the large, efficient farms in the EU-15 and the former collective farms in CEE-NMS such as Hungary or the Czech Republic. The society-based approach demonstrates how Polish farmers have banded together politically through political parties such as the Polish People's Party, an agrarian party that looks to slow privatization of agriculture and to continue with interventionist measures in agriculture, to push for protectionist measures in the CAP.[147] The CAP has had many interesting effects on Polish policy formation, and the unique structure of Poland creates a preference structure that shares similarities and differences between other CEE-NMS while being considerably different from the more environmentally and rural development oriented preferences of the former EU-15 states.

Polish preferences for the CAP have not always been included in the reforms of the CAP in the years leading up to Poland's accession to the European Union, and this lack of preference representation has created negative effects in Polish agriculture. The disparity in the funds received by the EU-15 and the CEE-NMS, including Poland, led to the separation of the two sides of the policy into the privileged and the disadvantaged. As time has gone on, the CEE-NMS have begun to receive more support from the CAP, but the distortions between the two

[146] Kosior, 140
[147] "Polish People's Party." Polish People's Party. *Portal on Central Europe and Balkan Europe*, Web. 10 May 2016

sides still remain today to a lesser extent.[148] There are two particular negative consequences from the failure of the EU-15 to include the preferences of Poland and CEE-NMS in the reforms of the CAP: the failure of the system of direct payments to encourage investment in agriculture and the increasing financial commitments of CAP to rural development and sustainability measures in the still developing CEE-NMS agricultural sectors.

One of the biggest negative consequences of the implementation of a CAP unattached from Poland's policy preferences is how Polish farmers use the direct payments. The EU-15 states pushed for the implementation of direct payments in order to limit the rising cost of the CAP associated with extending price-supporting measures to the CEE-NMS. [149]The rationale behind the direct payments was that the additional income could be used to increase investment in farming capital. This logic works well in the EU-15 where farmers have incomes that can support their family without the direct payments. Then, these payments could be invested directly into the farm through diversification or purchasing capital.[150] In the still developing CEE-NMS, the direct payments became a vital addition to income used for consumption. Instead of encouraging further investment in farms, the direct payments became a support measure that kept uncompetitive farms in the agricultural sector, thus limiting agricultural restricting and enforcing the status quo, the disparities between the EU-15 and the CEE-NMS, in Poland and the CEE-NMS.

The second negative consequence is the forcing of CEE-NMS to comply with rural development and environmental regulations associated with receiving direct payments for the CAP. Poland prefers to have greater flexibility to transfer funds reserved for rural development

[148] Dworak and Grzelak, 8
[149] European Commission
[150] European Commission

to farm-intensive support measures.[151] Forcing these developing CEE-NMS to develop agriculturally sustainable farming when they are already disadvantaged in terms of production when compared to the EU-15 states. The advanced EU-15 states can afford to consider rural development and agriculturally sustainable farming measures as imperative to the CAP, but the CEE-NMS are more focused with stimulating development directly in agriculture. Most of the CEE-NMS, including Poland, are against the further greening of the direct payments, and most support continued protectionist policies.[152] Rather than being able to pump as much funds as possible into farming to stimulate production and catch up to the EU-15 states, the CEE-NMS are forced to apply these funds in way that do not match their policy preferences. This forced misuse of funds further delays the process of the CEE-NMS closing the gap between the production of their agricultural sectors and the sectors of the EU-15. These two negative consequences of the CAP have created problems in the CEE-NMS that could have been avoided if the CEE-NMS had more of a say in the negotiations of CAP reforms.

[151] Kosior, 140
[152] Kosior, 140

Conclusions

With the creation of the European Union, one of the world's first experiments with a powerful, supranational organization began. The Common Agricultural Policy has served as one of the backbones of the Union, subsidizing and protecting agriculture in the continent for decades. The policy is not perfect, however, and it has had to be reformed and changed many times as the preferences of member states and acceding states began to influence or change the policy. After a lengthy period as a price-supporting agricultural policy, the CAP had to be changed in the face of the accession of the former communist states of central and eastern Europe.[153] If these states were to access under the price-supporting subsidies of the CAP prior to the MacSharry reforms, the cost of the CAP would have had dire consequences for large contributors such as Germany and the United Kingdom, thus leading to the reform of the policy leading up to accession of these states. The EU-15 took advantage of the opportunity to implement their preferences for the CAP without accommodating the preferences of the CEE-NMS such as Poland that would be affected by the implementation of this policy. The reform of the CAP has had negative consequences for the development of agriculture in the CEE-NMS, and the future of the CAP is going to heavily reflect the preferences of these states after their successful negotiation for less disparity in direct payments between the former EU-15 and themselves during the 2013 reforms of the CAP.[154]

Negotiations over the 2013 reforms of the CAP were particularly interested in how the CAP would change in the future. With the changes forces of globalization and increased competition on international markets from established powers such as the United States or developing future agricultural powers such as Brazil or India, the EU is heavily concerned with

[153] George and Berthe, 376
[154] Dworak and Grzelak, 8

protecting its agricultural interests. The hard part for the EU was determining what stance the Union as a whole would take in regards to the CAP and its reform. Negotiations over the CAP required over two years of intense discussions because of the disparities in preferences of the richer, former EU-15 states and the poorer, developing CEE-NMS states.[155] For all the possibilities of how reform would manifest for the future period of 2014 to 2020, there were three options for the EU: the maintaining of the current level of expenditures, the strengthening of the CAP budget, or reduction of support under the CAP and the renationalization of some aspects of the policy.[156] The negotiated budget ultimately combined the first two options while heavily rejecting the idea of renationalization agricultural policy in the EU, thus demonstrating the newfound political importance of the poorer CEE-NMS in the negotiation process of the reforms.

The CEE-NMS were not able to secure their ultimate goal of the equalization of direct payments between the former EU-15 states and the CEE-NMS, but they did manage to secure the gradual reduction of the disparity between the two groups. Also, Poland in particular pushed heavily for the continuation of the SAPS program for the period until 2020, allowing the poorer CEE-NMS to continue to use the simplified approach to direct payments.[157] A final concession received by the CEE-NMS is that the greening qualification and rules to environmental investment will not apply to farms under 10 hectares in size, a welcome policy in both Poland and Romania where large numbers of semi-subsistence farms are prevalent.[158] These concessions were important because the CEE-NMS needed to receive policies that matched their preferences

[155] Czyżewski and Stępień, 473
[156] Czyżewski and Stępień, 473
[157] Kosior, 140
[158] Kosior, 140

in order to accept the increased percentage of direct payments funds allocated for greening measures and the expansion of the CAP funds directed towards rural development.

The reforms of the CAP in 2013 are in preparation for the ultimate liberalization of the EU agriculture as the process of globalization increases. Since Poland has had a unique history of agricultural diversity, its preferences differ slightly from other CEE-NMS because Poland has a large number of small farms mixed with a few large ones, a structure similar to Romania but different from CEE-NMS such as the Czech Republic that underwent a large collectivization under communist control.[159] Poland's agricultural sector is still poor and underdeveloped when compared to the more efficient farms in the former EU-15, so this last period of CAP predominance as a supranational source of agricultural protectionism is imperative to the preparation of Polish and CEE-NMS agriculture for competition in a liberal market. The funds allocated to Poland the CEE-NMS will be the last on such grand a scale, so how these funds are used could determine if the CEE-NMS and Poland are able to compete in the global market without substantial protection from the EU.[160]

The CAP has affected the CEE-NMS in many ways, some intended and some unintended, because the CAP is a policy that has undergone many changes over the decades as the demands of the member states have changed and competed with each other. Understanding the changes in the CAP over time is important to understanding the policy as it stands today, the manifestation of the EU-15 controlling the reforms of the policy as the CEE-NMS could not impress their preferences on the policy. Only in the reforms of 2013 have the CEE-NMS and particularly Poland been able to negotiate their preferences into the policy. The CAP has influenced Polish agriculture in two particular negative ways by encouraging the continuation of

[159] Swain, 371
[160] Dworak and Grzelak, 8

the status quo by forcing Polish farmers to be dependent on the system of direct payments to survive rather than investing the funds on their farms and by forcing Polish farmers to develop rural development plans and sustainable farming rather than applying these funds to farming-intensive activities that could close the gap between production in the EU-15 and the CEE-NMS.

The shaping of Polish preferences towards increased protectionism, the rejection of the renationalization of the policy, and the disinterest in environmental concerns in favor of increased production demonstrates the needs of the country, and the opportunity for Poland to influence the further development of the CAP is a key opportunity to right some of the wrongs imposed by the EU-15 through the CAP. The future of the CAP looks grim as the policy does not have a strong place in an increasingly interconnected world that requires increased liberalization as multilateral trade agreements are put in place. Negotiations for further liberalization of agriculture between the United States and the EU are occurring today, and new developing countries such as Brazil and India are now at the negotiation table pushing for liberalization as well.[161] The pressures on the CAP will prove to be the deciding factors in weakening the policy at the end of the 2020 period, the end of a decades long era of protectionist dominance in Europe.

[161] Conceição-Heldt, 433

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