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Ideas, interests or institutions? The drivers of recent reform of the Common Agricultural Policy (CAP)

Sandra Kröger

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Institute for European Integration Research
Strohgasse 45/DG
1030 Vienna/Austria

Phone: +43-1-51581-7565
Fax: +43-1-51581-7566

Email: eif@oeaw.ac.at
Web: www.eif.oeaw.ac.at

Abstract

This contribution analyses recent CAP reform, the so-called Health Check, and evaluates the explanatory power of the theories usually applied to CAP change or the lack thereof. The paper starts out by giving a brief account over the founding ideas and instruments of CAP before it addresses recent reforms, the Fischler reform of 2003 and the so-called Health Check of 2008, in detail. Doing so, it is shown that member states resistance against a stronger marketisation of CAP persists while the discoursive trend towards rural development is not financially supported by member states. Three sets of theories commonly used in political science CAP analysis – ideas, interests and institutions – are identified and explored with regard to their explanatory power for the latest reform. The contribution concludes by arguing that there is no single factor driving CAP reform but that a triangle of international trade negotiations, national and sectoral preferences as well as dominating paradigms in public (and elite) discourses must be taken into consideration when seeking to explain the direction and the occurrence of CAP change.

***Keywords**: Common Agricultural Policy, Ideas, Interests, Institutions, EU Policy-making.*

Contents

1. INTRODUCTION[1]

Agriculture in the EU undergoes important changes and is faced with a number of serious problems: Uneven distribution contributing to poverty, price dumping leading to the further erosion of middle-range and small agricultural farms, ecological damage and uncertain social and political support are among them. In the EU, the Common Agricultural Policy (CAP), among the oldest and most developed and integrated policies, has not only organized agricultural policy in the EU, but also, by its organizing principles and priorities, contributed to these very problems. The CAP uses a number of highly technical measures of protectionisms – including import levies and quotas, internal intervention prices, production quotas and "set-aside" payments, as well as direct subsidies – that are all generally intended to control what is produced, to maintain certain price level of goods, and to interfere with how farming is organized (Grant 2007). Acknowledging the problematic aspects of this policy but also wider agricultural, social and ecological developments, since almost two decades now, the EU has been struggling with reforming CAP and adopting it to a changing environment. Enlargement has made the need for reform even stronger as have the diverse food crises, in particular BSE. At the same time, the successive enlargement rounds (and not only Eastern enlargement(s)) made such reform ever more difficult and unlikely to bring about significant changes as vested interests grew. Against this background the present paper addresses the most recent reform attempt, the so-called Health Check, in order to evaluate which changes were adopted and how these can eventually be explained. Indeed, the fact that only approximately 2 per cent of the GDP of the EU result from agricultural production while the CAP remains the most expensive common policy with around 46 per cent of the total budget in recent years (Grethe 2006; Phelps 2007: 282), and, to the difference of all other EU policies, has not been subjected to the rules of the market but has instead been heavily protected from it, needs explanation.

In many instances, the CAP has – logically – been addressed by economists and with an economic theoretical background. This contribution will instead focus on explanations

[1] I am grateful for the helpful feedback of an anonymous reviewer as well as from Gerda Falkner. The usual disclaimer applies.

provided by political science in order to explain why changes in the CAP did or did not come about. Doing so, it identifies three sets of already existing explanations, namely ideas, interests and institutions. Broadly speaking, “ideas” belong to the constructivist turn in European integration theory. Their importance has in particular been highlighted in discourse analysis. With regard to the CAP, the most prominent example that ideas matter is provided by Grace Skogstad who explains the slow pace of agricultural policy reform by the persistent idea of agricultural exceptionalism (Skogstad 1998). “Interests” are a common theme in political science and European integration research (Moravcsik 1998). In the CAP, it is clear that due to its huge budget, interests are particularly developed and fought for, and three actors stand out in terms of power to influence policy-making and development: Member states, the European Commission and interest groups. In the literature on the CAP, Adrian Kay has been defending an approach based on interest representation. Third, “institutions” also matter in European integration research (Leibfried and Pierson 1998). With regard to the CAP, the main institutional approach that exists in the literature sees changes in the CAP produced by (institutional) pressure induced by the World Trade Organization (WTO) and its liberal trade agenda to which its members are legally committed (Daugbjerg and Swinbank 2008a).

This article is structured as follows. In the next step, the origins of the CAP and its main organizing ideas and principles will be recalled in order to provide the reader with a good understanding of its past (2). Doing so, the latest reform, the so-called Fischler reform, will receive particular attention as it represents the status quo ante (the so-called Health Check). The third chapter will present in more detail the theoretical approaches that have so far been used in order to explain for CAP change or lack thereof (3). As mentioned, the theoretical model of the joint-decision trap will additionally be introduced. After a detailed analysis of the so-called Health Check, the initial proposal as well as the adopted compromise, I will check the explanatory power of the previously discussed theories (4). The article concludes with suggestions for future research (5). Overall, the aim of this contribution is to provide the reader with an overview over the existing state of the art of CAP literature and over recent changes of CAP itself.

2. THE CAP REVISITED

2.1. Historical development

Why is agriculture given such a strong priority within the EU, why is the agricultural European market protected while all other sorts of markets have been subsequently integrated and liberalised? A short look back will illuminate these questions. After food shortages during the Second World War agriculture was considered to be a strong priority, and this is why the Common Agricultural Policy (CAP) first emerged in the late 1950s and early 1960s. According to Art. 39,1 of the EC Treaty the aims of the CAP were to increase productivity by promoting technical innovation and ensuring optimum use of factors of production, ensure a fair standard of living for the agricultural community, stabilise agricultural markets, secure availability of agricultural supplies and provide consumers with food at reasonable prices (Skogstad 1998: 469). In its original form, the CAP was thus used for a threefold purpose of securing high prices on the EU domestic market, insulating the European producers from international markets (principle of community preference), and being a welfare policy for farmers (Garzon 2006; Grethe 2006; Phelps 2007).

Alimentary independence was desired in terms of political, economic and psychological reasons. Such independence is also designed to protect the EU from not always predictable conditions of international trade. Increased productivity should help to provide farmers with a reasonable standard of living, consumers with quality food at affordable prices and to prevent further migration to the cities in order to preserve rural heritage. Farmers are encouraged to stay and take care of their land, as well as to maintain rural development and landscape. The internal market should be supported and stabilised against external pressures through tariffs which was easy to achieve since the EC at the time was a net importer of most food.

In order to reach these goals, a number of policy instruments have been introduced. First, within the EU, yearly minimum prices (intervention prices) are defined for specific products. If the market price falls below this minimum price, the EU buys the product from the producer provided the latter meets certain quality standards. Through this purchase, producer prices are stabilised, preventing a further fall of the market price. Interventional buying stabilizes prices of agricultural products, which would, otherwise, according to advocates of protectionism, fluctuate dangerously due to weather conditions. Moreover, if food prices were allowed to act freely in the market, it would be much more difficult to control inflationary processes. However, this price and purchase guarantee works in favour of oversupply and is currently being phased out (Grant 2007).

Second and with regard to import, the production costs of nearly all agrarian products which are produced within the EU are far above world market prices and this is why they cannot globally compete. In order to prevent the European market to be crowded by cheaper products from outside the EU, the EU sets prices at a particular level. Farmers which want to export their products into the EU must pay the difference between the world price and the price set at EU-level as a sort of tariff to the EU (levy). Evidently, in particular developing countries are touched by this regulation. But so are also the European consumers who must pay higher prices than world market prices. With regard to exports, producers, in order to be globally competitive, can ask the EU to pay the difference between the world market price and the price set at EU-level. Preliminary agreements in the Doha Development Round included an offer to phase these export subsidies out by 2013 (Phelps 2007; Grant 2007).

Third, subsidies were introduced in order to stimulate production. The subsidies at first were coupled to the amount of production: The more farmers produced, the more money they received. In short, the CAP combines a direct subsidy payment for crops and cultivated land with price support mechanisms, including guaranteed minimum prices for various forms of production, import tariffs and quotas on certain goods from outside the EU – which are means of protectionism. Import levies and quotas are applied to specific goods imported into the EU, in order to restrict the amount of food being imported, as well as to raise the world market price up to the EU target price. The agricultural subsidies are financed by two funds, the European Agricultural Guidance and Guarantee Fund (EAGGF) and the European Agricultural Fund for Rural Development (EAFRD) which in particular accounts for direct payments. These are part of the total budget of the EC / EU and are administered by the European Commission. The funds are distributed by the member states which also control spending. Attempts to reform CAP's financial structure typically result in debates over how much financial solidarity there should be in the EU between the richer and the less industrialised states (Phelps 2007).

This policy successively became very expensive and unfolded unintended follow-up problems (Phelps 2007). The number one problem was (over) supply (Grant 2007; Phelps 2007). With a technological revolution and high guaranteed prices which encouraged investments, the supply of agricultural commodities increased sharply and made agricultural policy one of the largest item of public budgets. The result was that supply grew much faster than demand and that the EC switched from a net food importer to a net food exporter in most products. Since protection via tariffs became insufficient for a continued price support, the CAP became a major food buyer. Some of the over-production (the "butter mountains" and "milk lakes"), the simple storage and transport of which made CAP expenditures increase enormously, was dumped in the world market which depressed prices there and economically harmed food exporters from outside the EU. Some of the overproduction was simply burned. The EU-reaction to overpluses additionally consisted in quotas, in particular in the diary sector, but also in the beef and sheep regimes (Grant 2007).

A second problem was and remains that the farm income in average fails to keep up despite the protection by the CAP. While a high percentage of farmers in the EU thus became dependent on the CAP as an income-protection scheme, the larger part of the CAP money goes to big farms which do not necessarily need it (20 per cent of farmers receive 80 per cent of the CAP budget). With supply increasing while demand is more or less stable, the farms sector's total income falls with prices. Two consequences are possible: Either the number of farmers and respective employees fall, a continued trend since the 1950s, which leaves little place for farmers to remain competitive. Or farmers increase production through cultivating more land, rendering necessary the give up of other farmers ("to grow or to yield"). And indeed, the CAP has accelerated the trend towards large, industrialised farms.

Third, factory farming increasingly provoked the discontent of the larger public by its pollution, use of pesticides and lack of animal welfare. Soil, water and air are strained as well as organisms and ecological systems. That pesticides increasingly penetrated soil and water is not only a danger for the food chain, but makes the fauna more vulnerable to diseases and vermins while large machines and large acres are contributing to soil erosion. Follow-up problems are a more limited durability of agricultural products, contamination of farmers, often with mortal consequences, increased energy consumption and therewith C02 emissions (Phelps 2007: 294).

Fourth, the subsidies of the CAP do not only influence the internal market by keeping prices artificially high, they were and remain also of relevance for the global market. Since most farmers in poor countries, in particular on the African continent, cannot compete with production and prices of the subsidised European farmers, which sell their artificially cheap products in these states, they cannot make a living out of their farming since they cannot export their products to the West, eventually have to give up business and become increasingly dependent on European imports. The CAP therefore directly contributes to increasing poverty outside of the EU by making world prices artificially high and restricting foreign access to the EU market and therewith competition. Finally, the CAP not only produces unfair external effects, its interventionist nature also increasingly produces time-consuming trade conflicts dealt with in the framework of the World Trade Organization (WTO).

More these issues became politicised, more they created a bad image of the CAP which led to decreasing public support, thereby increasing the pressure for reform of the CAP. There have been four such reform attempts since the early 1990s: The MacSharry reform (1992), the Agenda 2000 reform (1999) and the Fischler reform (2003). Most recently (2008), the so-called Health Check was yet another try to reform the CAP in response to a changing economic, social and political environment. All these reforms since 1992 "have tried to address the market imbalances created by the original policy instruments based on price support" (Garzon 2006: 510) and have changed the composition of CAP expenditure (Grethe 2006). Due to space constraints, I will limit myself here to the CAP as it stood before the so-called Health Check, so to be able to evaluate which changes have actually occurred through it.

2.2. The CAP before the Health Check

In June 2003, the so-called Fischler reform[2] was adopted. With the ensuing regulation nr.1782/2003 by the Council on 29 September 2003, the respective reform was legally adopted for the period 2007-2013. Its main goals were the limitation of expenses after Eastern enlargement, a stronger market orientation as well as stronger support for environmental and consumer protection. The central elements of this reform, decoupling, cross compliance and modulation will now be revised.

Decoupling

The central idea of decoupling, which is the main element of the Fischler reform and of the first pillar of the CAP, is that the link between direct payments and production is largely broken and that subsidies are instead linked to obligations (Phelps 2007). Through decoupling CAP-payments from the product, farmers are freer in the choice of their cultivated products and are not constrained by existing transfer systems. Farms should thereby be transformed from subsidies optimisers to competitive enterprises which are responsive to (in particular regional) market developments. This in turn would allow for the end of current oversupply. In some instances, decoupling implies a massive cut of subsidies, in particular with regard to milk cow and bull cultures. In case of particular (economic) hardship, special funding may be asked for in order to compensate for these losses – in particular smaller and middle-range farms have expressed concerns that traditional agricultural production will suffer under this regulation. Decoupling should occur in subsequent steps until 2013. The nature of direct payments is thus changing from a production subsidy to a personal income policy (Grethe 2006)

Payments may now be asked for per hectare and three modes of calculation are foreseen by the regulation: First, a historical mode, based on farms' subsidies between 2000 and 2002 divided by the size of the then cultivated acreage. This model enshrines the existing distribution of payments and is the most used in member states. Second, a regional mode may

[2] Named after the then-in-place Commissioner for Agriculture, Rural Development and Fisheries, Franz Fischler (Austria).

be chosen which is a flat rate based on the regional subsidy average with a possible distinction between arable land and pasture. Third, a mixture of both may be chosen, i.e. all farmers get a hectarage payment plus a decoupled payment based on historic production. The extent of decoupling varies by member state and only four member states have opted for full decoupling: Ireland, Malta, Luxembourg and the UK (Grant 2007; Phelps 2007).

Payment entitlements will be attributed to all agrarian surfaces, also to those which previously did not receive payments (fruits, vegetables, potatoes, surfaces of horse holders). Since the absolute level of payments is not changed, the introduced changes will imply cuts for the already existing receivers of payments. Gradually, the payment entitlements shall be unified regionally until 2013 so that all farms will enjoy the same entitlements. The direct payments are gradually introduced in the newer member states during a period of ten years. In 2007, the EU spent 42 billion EUR on untargeted support for agriculture (Phelps 2007) such as the Single Farm Payment (SFP) which provides across-the-board income support to farmers independently of their current production decisions and which makes up for 90% of direct payments in the EU15 states (Grethe 2006). It is additionally a compensation payment and a land management payment. Through decoupling, the SFP qualifies for the “green box” of the WTO as a non-trade distorting measure (Grant 2007). Due to Eastern enlargements, there will be a clear shift from today’s net receivers in the West to tomorrows’ net receivers in the East. There have been doubts about the nature and effects of decoupling, e.g. if the SFP really qualifies as a non-trade distorting measure (Grant 2007) or whether it can ensure the desired environmental results (Phelps 2007: 299). This is not least due to strong resistance from France, Ireland and other net beneficiaries which only accepted its introduction because its implementation is up to member states’ specific needs and preferences.

Cross compliance

Rural development policy has been part of the CAP since the 1970s. Rural development is designed to support the social and environmental role of agriculture in rural areas. It has known an evolution of continued strengthening, parallel to the reforms of the market support mechanisms, and the introduction of cross compliance mirrors this development. Cross compliance was the second element of the Fischler reform and forms the second pillar of the CAP since the agenda 2000 reform in 1999 (Phelps 2007). Cross compliance links agricultural activities to environmental and food protection and quality, animal welfare and rural development, thereby combining the benefit of stabilizing farm income and achieving politically desirable policy objectives. Cross compliance supports inter alia agri-environmental measures, such as soil and acreage protection, maintaining buffer strips, hedges, and stone walls or reducing the use of fertilizer and crop protection chemicals, but also training of farmers and early retirement programmes. Member states must also secure that the percentage of durably green land as it stood in 2003 is not significantly diminishing. Cross-compliance thus recognises the multidimensional role of agriculture in rural areas. And because the subsidy is not linked to production of particular products or quantities, farmers are free to make decisions about their production and can choose from the menu of supported measures (Grethe 2006).

To receive funds, farmers must comply with certain minimal requirements such as environmental and animal protection as well as food and forage security. The respective regulations are laid out in the Good Agricultural and Environmental Condition (GAEC) and the Statutory Management Requirements (SMRs) (Grant 2007). As with decoupling, however, member states retain a high steering capacity as they determine GAEC standards according to the particular features of the region in question (Grethe 2006; Phelps 2007) and decide which measures in particular they wish to co-finance. Member states, in order to receive funds, must prepare rural development plans which must be approved by the Commission. Direct payments may now be cut, in case of a first instance of non-compliance up to 5 per cent and eventually completely if non-compliance occurred on purpose (Phelps 2007: 301). This pillar arguably has been strengthened through the reform and implies a shift from the focus on food production to a more global rural function of the CAP. Yet, it only received 9.5 billion Euro under the EU's rural development program in 2007 – a fifth of the agricultural budget (Phelps 2007) and is likely to decrease in the years until 2013 (Grethe 2006). Lack of funding and partial lack of political will of member states to implement cross compliance put an ambivalent light on this reform (Phelps 2007).

Modulation

The meaning of *modulation* has changed over time. In the context of the MacSharry reform it meant the transfer of funding from larger to smaller farms. It now normally refers to the transfer of funds from pillar 1, guarantee expenditure and single farm payments, to pillar 2 which is concerned with rural development policy. Concretely, it means that direct payments over 5.000 Euro are cut annually, in 2005 by 3 per cent, in 2006 by 4 per cent and between 2007-2013 by 5 per cent. The money gained is used to support the rural development measures of the second pillar. After this overview over the CAP as it stands, I will now turn to its theoretical explanations.

3. THEORETICAL STATE OF THE ART

Before the theories which usually seek to explain the CAP will be presented, information about the procedures and main actors of it seems of use. The CAP is part of the first pillar and highly integrated. The normal legislative process applies to it, i.e. the Commission drafts a proposal which the Council may adopt or reject, after a appropriate time of consultation. The role of the European Parliament is consultative, it will receive co-decision power if and when the Lisbon Treaty enters into force. The three central actors can be said to be the Council, the Commission and agrarian interest groups. The Council of the European Union, in this context the Agriculture and Fisheries Council, is responsible for legislative activity and for allocating funding between direct producer support (pillar 1) and rural development (pillar 2). The Council also holds its own committee, the special committee of agriculture, which has advisory functions. The Commission administers the CAP and assures that Treaty provisions and legislative measures are implemented correctly. Formally, the Commission controls the agenda of the CoAM. It enjoys the sole right to propose legislation and to implement legislative enactments, and for the CoAM to agree on something different than the initial Commission proposal requires unanimity or the consent of the Commission. The Commission allocates responsibility to DG Agriculture, Rural Development and Fisheries for the administration of the programmatic area. Lastly, the Commission administers the actual funding of the CAP. There are, of course, more actors that are included in the policy-making cycles of the CAP, in particular from sub-national levels as well as the respective administrations, semi-public actors such agricultural chambers and in some instances private organisations if these are handed over particular functions by a precise law. Additionally, there is a broad range of agricultural interests groups which seek to influence the development of the CAP. The largest association of interest groups is the Comité des Organisations Professionelles Agricoles (COPA), an interest group defending in particular large farming which has been very influential in the past. In what follows, the theoretical approaches that have been used in political science in order to explain CAP reform or the lack thereof will be presented.

The literature does not offer a well developed theory of CAP reform or of the lack thereof (Kay 2000). As in other policy fields, scholars disagree about the nature of change and about causal relationships. The different explanations that have so far been put forward broadly correspond to three different, main independent variables: ideas, interests and institutions, each of which will now be addressed.

3.1. Ideas

Since the 1990s, the role of ideas for policy change has been increasingly taken into consideration (Hall 1993; Jachtenfuchs 2002). Coined in a different terminology while belonging to this body of research, Hall's notion of paradigm and the conditions under which paradigm change occurs have been particularly influential. The concept of paradigm "specifies not only the goals of policy and the kind of instruments that can be used to attain them, but also the very nature of the problems they are meant to be addressing" (Hall 1993: 279). With regard to CAP analysis, it is in particular Skogstad who uses the notion of paradigm and who claims that "ideas do make a difference to policy outcomes" (Skogstad 1998: 481), in particular those ideas "that have become embedded in institutions" (464). This is so because once ideas have become institutionalised, institutions thereafter privilege the given interpretative framework, with the result that "deliberations under institutional auspices are not a freeform exercise, where all potential interests, meanings, and values are created or treated as equals" (Heclo 1993: 379).

The leading idea of CAP would be agricultural exceptionalism which assured that agricultural policy in the EU was dominated by a state-assisted paradigm (Skogstad 1998: 466; Grant 1995). This was so for three reasons. This paradigm was stronger in the EC than in the USA, so Skogstad, because of a greater institutionalisation of this paradigm and the concrete configuration of policy instruments adopted by the EC. After all, agricultural state assistance is constitutionalized in the Treaty of Rome (Lynggaard 2004). Second, there would be a better fit with the ideational framework in the EU about the right balance between the market, the state and the individual than in the USA. In the EU, the conception that social cohesion is at least as important as economic efficiency has been dominant until the turn of the century, and the smallest production unit of social cohesion was the farm (Mahler 1991: 45-46). Finally, the paradigm would have been better adjusted to crises and new challenges than on the other side of the Atlantic and therefore been able to gain supporters beyond the farming industry. Other social goals such avoiding desertification of the countryside, maintaining rural employment and protecting the environment and animals also became important in the EU.

According to Skogstad, there are at least two *fundamental beliefs* that made agricultural exceptionalism possible. First, farmers are generally perceived to have special interests and needs which have to do with unique and uncontrollable factors linked to changing wheather conditions and imperfect markets (Skogstad 1998: 468; Lynggaard 2004). Climatic factors, plant and animal diseases can have a significant impact on farm production. The result is that farmers' incomes are more unstable and lower than in other sectors and that market prices fluctuate sharply because of the low price elasticity of demand for farm production (Nedergaard 2006). In this context, state intervention is seen to produce more efficient outcomes and secure general welfare than a more laissez-faire approach. The second core belief is that agriculture contributes to broader national interests and goals which were particularly accentuated after the food shortages of the Second World War. A safe and secure food supply as well as stable and affordable prices are highly valued, are therefore in the public interest, and legitimate public intervention (Nedergaard 2006). This is how agriculture became an essential part of the Franco-German bargain leading to the European Economic Community. In these two founding member states, the idea that agriculture is a matter of state interest and should be supported as such is widely accepted and therefore enjoys broad public support (Lynggaard 2004). For these reasons, maintaining the family farm intact, through supporting farm income and therewith stability, was the official objective of the CAP over almost five decades and lately has been extended to keeping rural activity intact (see also Coleman et al. 1997). While the reasons for agricultural exceptionalism were thus expanded, the very paradigm of agricultural exceptionalism remained by and large intact (Skogstad 1998: 476) and the CAP continued to support a preferred social order "with a peculiar structure of programs, expectations, and political and economic relationships" (Rieger 1995: 222), underlining the unique place of agriculture in the psyche of European industrialized societies (Ockenden and Franklin 1995).

Newer versions of agricultural exceptionalism emphasize the broader public goods provided by the agricultural sector, including farmed landscapes, maintenance of biodiversity, and perseverance of the rural cultural heritage. Along these lines, it has been suggested that the paradigm has shifted from the state-assisted to the multifunctional paradigm in which the image of the farmer "evolved towards stewardship of the environment" (Garzon 2006: 173; Moyer and Josling 2002: 35). A logical implication should be that the CAP is equally shifting its emphasis more towards the provision of public goods, such as environmental services. If this has been the case with the latest "Health Check" will be discussed later.

How do these ideas come into the policy process? Nedergaard has argued that the ideas that mattered in the 2003 Fischler reform can be addressed from an advocacy coalition framework perspective (Nedergaard 2008). He identifies three reform coalitions – the agricultural, moderate and radical reform coalitions – and their respective members and ideas about CAP. Before the reform, so Nedergaard, the agricultural reform coalition, the basic story line of which would be that no CAP reform is needed, would have traditionnally been the strongest one, while the radical reform coalition the aim of which is to abandon CAP, would have been the weakest. However, in the course of the reform process, the moderate reform coalition, the story line of which is described as a need for a new direction of CAP, would have managed to impose itself as the leading coalition. It succeeded in making CAP less trade-distorting by getting rid of common prices and uniform implementation. According to Nedergaard, this was possible due to three factors. First, not only did Franz Fischler, the responsible Commissioner, act as a policy broker and defender of reform, he also managed to keep the process very closed, so that only very few people were involved in the early stages of the reform – and COPA delegates were not amongst them, indicating their decreasing influence over CAP direction. Second, from late 2000 on, the Bovine Spongiform Encephalopathy (BSE) spread from the UK to the continent, with the effect of decreasing confidence in food safety in member states, the lack of which was associated to the sort of farming that CAP supports, namely large and heavily industrialised. Third, WTO negotiations were another factor pushing for reform since it had been decided in Doha that agicultural support should be cut further (Nedergaard 2008).

3.2. Interests

In CAP analysis, interests-guided research concentrates either on member states interests or on organized interests representation and influence (Kay 2000). With regard to the former, it is widely known that the interests of EU member states concerning the CAP budget and its priorities differ (Greer 2005; Grethe 2006; Phelps 2007). These differences stem from different preferences and endowments as to the role agriculture should have in society, but also how much state intervention there should be more generally. Differences in preferences include the desire to develop more efficient farm structures or the interest to keep agricultural activity in marginal regions. With respect to endowments, it is mainly the share of the agricultural sector in the economy which determines the position towards the CAP. This is so because the national contribution to the EU budget is largely determined by the size of the economy as a whole whereas the receipts resulting from the CAP are related to the size of the agricultural sector. Since the costs of CAP budget are carried collectively, member states thus tend to maximise national economic interest by claiming the highest possible return through the expansion of national agricultural production (Nedergaard *et al.* 1993: 126-132)[3]. Traditionally, these preferences have opposed Spain, France and Ireland as net beneficiaries of the CAP whereas the UK, Netherlands, Italy and Germany were net contributors. France in particular has always opposed the reduction or nationalisation of direct payments because of its strong beneficiary position, a position that translates into a rejection of market liberalism in food production.

Being a net receiver of CAP is not only the preference of governments, but also that of interest groups representing farmers. The privileged access of these interest groups to political institutions, so a common assumption, has contributed to a highly protectionist CAP (Nedergaard et al. 1993) while those paying the CAP, the tax payers and consumers, are

[3] It has been noted that this creates a permanent free-rider problem as member states seek to maximise national economic interests by claiming the highest possible return from the CAP (Nedergaard et al. 1993; Ackrill 2000).

generally poorly organized and thus less involved in the decision-making process. Their low degree of organisation is the very reason why political decision-makers do not expect strong resistance when import tariffs are introduced, food prices are kept well above the world market level, and farmers are subsidized.

COPA, the largest interest representation of farmers at EU-level, usually holds 50 per cent of the membership of the Commission's advisory, management and regulatory committees that exist for each of the CAP product regimes. However, farmers are divided along many lines: small versus large farms, vegetable versus animal producers, Northern versus Southern products and Western against Eastern farmers. Still, the common concerns have been described as strong enough in order to organize a common approach in which conflicts are generally avoided (Nedergaard 2006). Some scholars find that their influence is not as strong as commonly assumed (Kay 2000), and in particular has diminished in recent years due to structural diversification and to increasing pressure by public opinion (Phelps 2007: 319). Nedergaard, in contrast, argues that the CAP has created path dependencies and therefore cannot be explained by its economic characteristics alone. An analysis of the political decision-making process would be necessary in order to understand why farmers invest as much in lobbying (because their income in many instances is a function of political decisions), and invest with success, why other low income groups do not receive as much support as the farmers, and why 20 per cent of the wealthiest farmers receive 80 per cent of the total CAP support. While the economic profit-seeking in the market is generally not successful, political profit-seeking through interest representation generally pays off (Nedergaard 2006).

In the decision-making arena, the Council often stands close to agricultural interests since the respective ministers most of times have a respective biographic background. It is broadly agreed that the Agriculture Council (CoAM) has been very reluctant to reform and has thus been a strong defender of the status quo (Kay 2000; Lynggaard 2004). However, divisions over the CAP appear to be bigger than ever. The UK is in favour of abolishing tariffs and all other measures that keep EU agricultural prices above world market levels. Germany estimates that the CAP is healthy and needs only some medicine drops to be strengthened while France deems the CAP so effective that the policy should be exported to developing countries.

The Commission protects agricultural interests to a certain degree. Commissioners – but the current Danish one – have always come from member states with a strong agrarian structure, DG Agriculture is the most powerful in the Commission, human resources-wise, and the Commission holds close contacts with agricultural networks. However, more recently, DG Agriculture has shown firm interest in reforming the CAP in order to make it more competitive and to be able to sell European products on the world market without subsidies. Against this actor background – Council, Commission, organised interests – one can thus believe that there are strong vested interests in defending the CAP and that reform should be rather unlikely. Accordingly, the CAP has been described as extremely path dependent, governed by an "iron triangle" (Hix 1999: 253; Lynggaard 2004).

3.3. Institutions

Besides focusing on ideas and interests, (other) scholars have focused on institutions. A prominent idea is that the development of CAP is strongly influenced, if not driven by negotiations of the World Trade Organization (WTO) on agricultural trade liberalisation, in particular with regard to the MacSharry reforms of 1992 which were needed in order to conclude the Uruguay Round (Daugbjerg and Swinbank 2008a: 632, 2008b): "Arguably the single most significant factor fuelling CAP reform is the mandate of the WTO" (Phelps 2007: 289). As a response, the EU reformed the CAP by reducing prices for cereals and beef and by introducing a system of compensatory direct payments (Grethe 2006).

The overall goal of the WTO is to create a market free from tariffs and subsidies in the belief that this will improve the welfare of people and nations. To do so, members of the WTO have agreed to reduce internal agricultural subsidies that are production and trade distorting, even though the EU and the USA have ultimately negotiated that not all subsidies shall be abandoned. Evidently, the WTO considers CAP measures by and large to be trade-distorting, with damaging effects for the EU more broadly (Nedergaard 2006). By reforming its CAP, the EU in turn seeks to strengthen its bargaining position in the WTO (Phelps 2007: 301).

Currently, the WTO differentiates between three distinct categories of measures or so-called boxes (green, amber and red) for which it has set annual spending limits. In the green box, there are measures that are permitted. Such measures would in particular include rural development, research or environmental objectives. The amber box includes those agricultural subsidies and farm payments that directly influence production. The measures in this box should be reduced over time (market price support in the EU in particular). The red box contains measures that are forbidden (Phelps 2007). From this angle, moving measures increasingly to the second pillar is a way of helping agriculture with new instruments, but also to conform to WTO regulations. After this theoretical overview, I will now turn to the most recent reform attempt of CAP, the so-called Health Check.

4. The LATEST REFORM PROPOSAL: THE “HEALTH CHECK”

When the CoAM adopted the Fischler package in 2003, it agreed at the same time to review certain aspects in 2007-8 (EU: 2003). Commissioner Mariann Fischer Boel first introduced the term “health check” in late 2005 which was increasingly used from mid-2006 on (*Agra Europe*, 9 December 2005: EP/7). I will now first present the initial proposal of the Commission, then confront it with the adopted compromise before a tentative explanation closes the chapter.

4.1. The proposal of the Commission

The objectives of the so-called Health Check (HC) are to strengthen the market orientation of CAP by eliminating most of the remaining production limitations, by strenghtening decoupling and rural development (Keller-Noellet and Zimmermann 2008). The HC is intended as an opportunity to adapt the CAP to market needs and societal development until 2013 when a wider ranging reform will be on the European agenda. By the Commission, this mid-term review has been framed not as a reform of the CAP, but as a mechanism to assess its functioning. It has been very keen to suggest that the review would be technical in nature while major changes would be left to the budget debate to be launched in 2009 (Daugbjerg and Swinbank 2008b). In order to advance the HC, the Commission published a Communication 20 November 2007, "Preparing the Health Check of the CAP reform" (COM 2007). Its main questions are how to make the direct aid system more effective and simpler (through more decoupling), how to adapt market support instruments, originally conceived for a Community of six member states to today’s EU, and how to confront new challenges, from climate change, to bio fuels, water management and the protection of biodiversity. The CoAM agreed that the HC should help to align CAP better with global market trends, while preserving the European model of agriculture (Council 2008). The Communication does not include many specific proposals; rather it makes suggestions about the direction the CAP should take. These suggestions include:

- Simplifying the Single Payment Scheme by moving towards a flat rate system (intended through a “flatter” rate than the Fischler reform proposed, based on farm size rather than on historical receipts. This would not only make payments more simple, it would also potentially have redistributive effects and address the common criticism that the largest payments are concentrated on very few farms);

- Targeting cross-compliance to more effectively promote sustainable agriculture and to specifically address the challenges presented by climate change and water management (an EU-wide approach to managing risk is deemed inappropriate because different member states are exposed to risk in different ways and different regions and sectors within member states often face different risks. The Commission therefore suggests using modulated funds to cover risk management measures within the rural development framework. Member states can support measures aimed at restructuring);
- Moving towards full decoupling: While the 2003 reform of CAP introduced the Single Payment Scheme so that aid would no longer be linked to production (decoupling), there were many options which allowed member states to retain some coupled payments (full decoupling would imply that direct support would no longer be justified as an income transfer during a transitional phase. It would rather be a structural support for economic activity in certain rural regions for cohesion purposes and/or for the provision of positive externalities to society that are not valued by the market);
- Introducing upper and lower limits to support: Capping is seen as a way of addressing the problem that a high proportion of the money goes to large landowners and agribusinesses while a large number of small farms receive small amounts which are often below the costs of administration. Capping means to explore the possibility of limiting payments both at the higher and at the lower level of the payment scale (the Commission suggests that farm payments above €100,000 would be cut by 10 per cent, those over €200,000 would be cut by 25 per cent and those over €300,000 would be cut by 45 per cent);
- Revising intervention and supply control measures;
- Abolishing set-aside while retaining its environmental benefits: At present, and since the Mac Sherry reform in 1992, farmers have to set aside a proportion of their land

and leave it uncultivated at any given time while being financially compensated for set-aside. The measure was supposed to place constraints on production. However, the impact remained low as farmers typically set aside their least productive land (Grant 2007).

- Preparing a "soft landing" for the dairy sector as it approaches the end of the quota system in 2015, meaning that the milk quotas should be gradually increased until then. Export subsidies on dairy products had not been used since June 2007 and intervention stocks were depleted, leading the Commission to think that the respective supply controls (dairy quotas and set-aside) should be abandoned;
- Strengthening the rural development aspects of CAP by introducing new rural development measures such modulation to target climate change, water management, bio energy and biodiversity. Currently only 5% of direct aid under CAP is channelled into rural development and the proposal is to increase this to 13% by 2013, implying a reduction of other CAP measures (COM 2007).

After the publication of the Communication, a period of six months for debate and dialogue was foreseen, involving the Commission, member states, the European Parliament and interests groups, with two stakeholder conferences on 6 December 2007 and 11 January 2008. This period ended with the formal legislative proposal by the Commission on 20 May 2008 which was then debated under the French Presidency in the second half of 2008, i.e. under the presidency of that member state which is the most outspoken in the EU against any (substantive) change of CAP. Farm ministers met in Annecy on 21-23 September 2008 and eventually came to a compromise two months later when they met again in Paris.

During negotiations, some questions attracted particular attention. First, the intensity and the pace of adjustments of CAP was an object of debate. The extent to which funds should be switched from the first to the second pillar and the freedom of member states to choose the measures they want to apply in their rural development policy were sensitive issues. Second, the uneven distribution of funds between large and small farmers, regions and sectors, which is publicly perceived as unfair and thus poses a legitimacy problem for CAP, was a contested issue. Several member states opposed the idea of degressively capping the largest payments, arguing that the most productive and cost-effective farms would be hit. Third, decoupling brings along higher market risks for farmers which cannot count on payments as a basic income anymore while still being subject to changing wheather conditions. Therefore, the Agricultural Council plead to introduce some kind of income safety net or risk management for a farmers' revenue. Fourth, it was debated what should be the objectives of cross compliance and what the Single Farm Payment should be for. While payments under environmental schemes are very clearly paid for the delivery of wider public goods, payments made under the Single Farm Payment Scheme are less clearly defined. Finally, the degree to which farmers of EU member states should be privileged over farmers from states outside of the EU was discussed. In this context, French President Sarkozy spoke out against "the environmental, social, fiscal and monetary dumping imposed on our farmers" and pleaded for a new Community preference[4].

4.2. The Compromise

After several rounds of negotiations, the CoAM adopted a compromise in November 2008 in Paris with these main results:

- Extending SAPS: EU members applying the simplified Single Area Payment Scheme will be allowed to continue to do so until 2013 instead of being forced into the Single Payment Scheme by 2010;
- Additional funding for EU-12 farmers[5]: €90 million will be allocated to EU-12 until direct payments to their farmers have been fully phased in;
- Cross compliance will be simplified by withdrawing standards that are not relevant or linked to farmer responsibility. New requirements (yet to be determined) will be added to retain the environmental benefits of set-aside and improve water management;

[4] Allocution de Monsieur le Président de la République à l'occasion de l'Inauguration du 45e Salon International de l'Agriculture. Paris, 23 février 2008. Accessed, 26 December 2008, http://www.elysee.fr/documents/index.php?mode=cview&press_id=1085&cat_id=7&lang=fr.

[5] Farmers from any of the newer EU member states that joined the EU since 2004.

- Decoupling: The remaining coupled payments will now be decoupled and moved into the Single Payment Scheme (SPS), with the exception of suckler cow, goat and sheep premia, where member states may maintain current levels of coupled support;
- Capping: Currently, all farmers receiving more than €5,000 in direct aid have their payments reduced by 5 percent with the safed money being transferred into the rural development budget. This rate will be increased to 10 percent by 2012. An additional cut of 4 percent will be made on payments above €300,000 a year. The funding obtained this way may be used by member states to reinforce programmes in the fields of climate change, renewable energy, water management, biodiversity, innovation and for accompanying measures in the dairy sector;
- Intervention mechanisms: Intervention will be abolished for pig meat and set at zero for barley and sorghum. For wheat, butter and skimmed milk powder, intervention purchases will be possible for a limited amount at a fixed price during the intervention period;
- Abolition of set-aside: The requirement for arable farmers to leave 10 per cent of their land is abolished. This will allow them to maximise their production potential;
- Milk quota system: quotas will be increased by one per cent every year between 2009/10 and 2013/14. For Italy, the 5 percent increase will be introduced immediately in 2009/10. In 2009/10 and 2010/11, farmers who exceed their milk quotas by more than 6 percent will have to pay a levy 50 per cent higher than the normal penalty;
- Assistance to sectors with special problems: Currently, member states may retain by sector 10 per cent of their national budget ceilings for direct payments for use for environmental measures or improving the quality and marketing of products in that sector. This possibility will become more flexible. The money will no longer have to be used in the same sector; it may be used to help farmers producing milk, beef, goat and sheep meat and rice in disadvantaged regions or vulnerable types of farming; it may also be used to support risk management measures such as insurance schemes for natural disasters and mutual funds for animal diseases; and countries operating the Single Area Payment Scheme (SAPS) system will become eligible for the scheme.

4.3. Explanation

Thus, with HC, the trend to address the market imbalances created by the original policy instruments based on price support continued, the trend towards income support to farmers which is not linked to production goes on as does the trend towards more horizontal measures (rather than specific regimes for each and every commodity). Also, there is a consolidated trend towards a re-nationalisation of CAP, leaving considerable scope at both the national and the regional level as to the implementation of CAP regimes depending on specific circumstances and preferences (Grant 2007). Capping was introduced, but not as much as suggested in the original proposal of the Commission, and set-aside and milk quotas were abolished or will be phased out in the coming years. Full decoupling has not been achieved, leaving question marks as to the political will to leave the production-oriented CAP system while rural development has not received additional funding (only if and where money is unspent for other measures, it may be directed towards rural development). There has thus been some incremental change. How can these results be explained? Does any of the previously laid out theoretical models – ideas, interests, institutions – on its own have sufficient explanatory power? To say it right away, it seems difficult to explain CAP change or the lack thereof by one single theory (Banse et al. 2008). Not surprisingly, there is a range of eclectic approaches (Ackrill 2000; Moyer and Josling 1990).

With regard to ideas, there must be doubts about the change towards a multifunctional paradigm which in discourse exists but which lacks financial support by member states (Buckwell 2008), as exemplified through the abolishment of set-aside. The paradigm of agricultural exceptionalism lives on – without which it cannot be explained that this sector is not subject to the same market regulations as other sectors, as we can see in the continued quota system, the resistance to full decoupling, continued intervention mechanisms, and the increased possibility, for member states, to choose among measures (instead of one common regime for all). At the same time, the traditionally broader ideational fit of European societies with market intervention when compared to the USA seems to be increasingly crumbling, and it remains to be seen in how far those institutions which are still bearers of interventionist ideas will remain intact in the future.

Clearly, in discourses, agricultural and rural production play a role that is ever more way beyond their economic significance. Policy-makers want to prevent further rural drain and assure that rural areas are populated and cultivated. If it is not for the economic significance of farming, then the profounder reasons for this attention must be found somewhere else. The desire to support rural activities, I would argue, cannot account on its own for the attention devoted to rural areas. Rather, the symbolic (and practical) value of rural communities for the construction of a collective (national) identity should not be underestimated, both in the imaginary as in the concrete fabric of social reality. More micro-analysis of whether the importance attributed to rural areas in official discourses is in line with opinions of people living both in rural and in urban areas is therefore urgently needed.

With regard to interests, policy-makers and lobbyists today must recognize and accommodate different concerns which do not necessarily push CAP in the same direction, such as increased consumer demands (related to the food quality and safety, animal welfare and / or environmental protection), international trade concerns, the overall budget of the EU, declining rural population and Eastern enlargements (impact on overall distribution of EU budget) (Phelps 2007: 286). While the CAP is still one of the main budgetary lines in the EU's annual budget, the so-called Health Check was not discussed at a time of CAP budget crisis and was not driven by a budgetary constraint (Daugbjerg and Swinbank 2008b: 9). National economic interests, were thus not the (single) driving factors. However, it is possible to argue that the increasing flexibilisation of measures as well as additional funding for EU-12 respond to national interests which are counter to a uniform CAP. Interests, which may play a more prominent role in the future, are those of consumers. Consumers increasingly ask for food quality and food safety as well as for animal welfare, a development accelerated by crises such as the mad cow disease.

With regard to institutions, the Doha Development Round in particular influenced the agricultural paradigm since 2003 and certainly the early phase of HC, in particular with regard to reduction of domestic support, export subsidies and import protection (Daugbjerg and

Swinbank 2008b: 11). It is more difficult to claim that the Doha Round impacted on the specific results as these were negotiated months after the failure of the trade round in Geneva in July 2008. Still, it can be observed that CAP and WTO regulations are moving in the same direction, namely making markets more competitive, and it is unclear if sufficient pressure for reform would have existed without the Doha Round (Daugbjerg and Swinbank 2008b: 12; Nedergaard 2006; Phelps 2007). However, after the failure of the Doha round, the "continued ability of the WTO to promote agricultural reform is an open question" (Phelps 2007: 290) while there may be an increasing trend towards bilateral and regional trading agreements.

This contribution thus claims that CAP reform cannot be explained by a single theory. Instead, it suggests that CAP development should be seen in a triangle of international trade negotiations, diverging national preferences and diverging sectoral interests, and the symbolic value that agricultural and rural production and care have. The result is the lack of one coherent and common policy and instead the existence of different, at times contradicting policy regimes, which eventually, in future research, can be explained from the perspective of the joint decision trap (Scharpf 1988, 2006).

5. CONCLUSION

In this contribution it was shown how the CAP first developed after the Second World War. The experience of food shortages made agricultural autarky a high political priority and a series of market-distorting instruments were introduced to increase the productivity of farmers and protect them from global competition to such a point that the famous butter mountains and wine lakes were created, the environment increasingly damaged, global poverty sharpened and the international reputation of the EU in terms of social justice by and large discredited, not to mention numerous judicial quarrels with trade partners. As a consequence, the EC increasingly embarked on reforms of CAP all of which had incremental character (Lynggaard 2004).

In a next step, the theoretical models that have been used in the last 15 years to explain CAP reform or the lack thereof were reviewed and divided into three categories of explanations: ideas, interests and institutions. The ideational approach focuses on the paradigm of agricultural exceptionalism which grounded in unstable weather and equally instable market (and income) conditions and the goal of alimentary independence from international trade. Approaches that focus on interests usually concentrate on the economic interests of member states and thus budgetary concerns or the interests of particularistic lobby groups, i.e. farmers' interest organizations. Institutionally, attention has been directed towards international multilateral agreements made within the WTO which is said to act as a strong driver towards the liberalization of European farming conditions.

The next chapter dealt with the so-called Health Check. It revealed an ambitious proposal from the European Commission with clear preferences: On the one hand, market-distorting instruments should be abolished as far as possible, on the other hand, rural development should be supported in a much more straightforward way than before. It also revealed that member states set limits to both and apparently want to protect the state-assisted model as long as eventually possible (despite national variations) while the rural development aspects of CAP seem to lack financial support by member states. Finally, the explanatory power of the theoretical models previously presented was discussed. It was argued that there is no single factor driving CAP reform – nor preventing it from coming about – but that a triangle of international trade negotiations, national and sectoral preferences as well as dominating paradigms in public (and elite) discourses must be taken into consideration when seeking to explain the direction and the occurrence of CAP change.

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