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Caption: Working document published by the European University Institute in Florence in which Lorena Ruano, Doctor in International Relations, compares the problems encountered during the negotiations for the accession of the countries of Central and Eastern Europe to those currently facing Spain. The document particularly focuses on the redistribution of aid provided under the common agricultural policy.
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The Common Agricultural Policy and the European Union's Enlargement to Eastern and Central Europe: A Comparison with the Spanish Case

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This Working Paper has been written in the context of the 2001-2002 European Forum programme on “Europe in the world: the external dimensions of Europeanisation” directed by Professor Helen Wallace with Mark Pollack an Professor Jan Zielonka as Associate Directors.

The Forum examined the various ways in which the European Union’s policies and practices are exported to neighbours, partners and associates. Over the year Fellows involved in the Forum looked at particular policy issues, particular patterns of association, especially the enlargement process, and some elements of the transatlantic relationship. Papers presented explored the range from substantive policy to broad norms and values as they impact on how the EU addresses the challenge of partnership with third countries.

ABSTRACT

Throughout its history, the European Community/Union (EC/EU) has constantly been involved in enlargement negotiations which have added pressure to the perennial struggle about reform of the Common Agricultural Policy (CAP). This is because the CAP is the main redistributive policy of the Union and still absorbs the largest proportion of its budget, making the financial costs of enlargement in this sector highly visible and thus contentious. So, despite the peculiarities of the present enlargement and the dramatic changes in the European geopolitical landscape during the last decade, the EU's Eastward enlargement negotiations share important traits in common with previous cases in the agricultural sector, in particular with those of Spain (1978-1985).

As in the case of Spain's accession, the most recent reforms to the CAP have been insufficient to cope with the disruption brought by the Eastward enlargement of the Union, especially in budgetary terms. The result is that, as with Spain in the past, the EU's proposed terms of accession in the agricultural sector have been perceived as "tough" by the applicants (especially Poland), because they intend to delay the introduction of the CAP in the new members for as long as possible and to pass much of the costs of adaptation of this old policy onto them.

The similarities between these two cases deserve analysis, which the paper develops in three parts. The first one provides a brief history of the CAP and summarizes the main problems of Spain's accession negotiations to the EC in this sector, with special focus on three regimes: olive oil, fruits and vegetables and wine. The second section reviews the recently concluded negotiations with Central and Eastern European Countries (CEECs) and highlights their parallels with the Spanish experience. The last section discusses and evaluates two approaches that can be used to understand why there are such similarities between these cases of enlargement negotiations: first, the "intergovernmentalist" approach, which portrays the problem as a distributional conflict among states; second, the "organizational" approach, which instead, looks at the influence of sectoral politics and decision-making structures. The insights that emerge about the workings of the EU indicate that a comparison between the most recent enlargement and the previous Spanish experience is a worthy exercise.

KEYWORDS: enlargement, accession negotiations, Spain, Poland, Central and Eastern Europe, Common Agricultural Policy (CAP), budget, reform.

INTRODUCTION

The enlargement of the European Union (EU) to the countries of Central and Eastern Europe (known as the CEECs) is often talked about as different from the previous ones, for its political and strategic implications (Hill, 2000), for the fact that the *acquis communautaire* to be adopted by the new members is larger and more complex than ever (Avery and Cameron, 1998), for the high threshold marked by the admission criteria announced at the Copenhagen Council in 1993, and for the large number of much poorer applicants (Mayhew, 2000a).

Without denying these particular characteristics and challenges, this paper shows that the recent task of negotiating accession needs to be understood in the light of its historical predecessors. This is because similarities with past cases of enlargement do exist, and their analysis can provide interesting insights into how the EU negotiates with third parties and how its policies change (or remain stable) to accommodate new members.

The current enlargement negotiations share important traits in common with previous cases, in particular with those of Spain, a country which, from 1978 to 1985, aspired to membership of the European Community (EC) as a way to consolidate its new democratic regime and carry through economic modernization. In particular, the difficulties related to the negotiation of the way in which the CEECs will be made to incorporate the *acquis communautaire* in the agricultural sector stand out as very similar to those faced by Spain twenty-five years ago. And this is because, although the EC has changed as a whole, the Common Agricultural Policy (CAP) remains strikingly stable, and adapting it to accommodate new members has always represented a challenge.

The main similarities between the accession negotiations of Spain and those of the CEECs with respect to the CAP are twofold. First, a link between enlargement and the reform of the CAP has been established by the EU/EC in both cases, because extending this policy to the new countries is very expensive in budgetary terms. So bitter internal disagreements about how to bring down its cost has accompanied enlargement negotiations, delaying and complicating the discussion of the agricultural chapter with the applicants. Second, the reforms, although achieved, have been insufficient to cope with the budgetary disruption brought by the accession of both Spain and the CEECs. This meant for the CEECs (as it did for Spain) that the EU presented the candidates with "tough conditions" for their incorporation in this sector, i. e. opening up their markets but not given the full extent of support and access until the end of long transition periods.

The similarities between these two cases deserve analysis, which the paper develops in three parts. The first one provides a brief history of the CAP and summarizes the main problems of Spain's accession negotiations to the EC in this sector, with special focus on three regimes: olive oil, fruits and vegetables and wine. The second section reviews the recently concluded negotiations with CEECs and highlights their parallels with the Spanish experience. The last section discusses and evaluates two approaches that can be used to understand why there are such similarities between these cases of enlargement negotiations: first, the "intergovernmentalist" approach, which portrays the problem as a distributional conflict among states; second, the "organizational" approach, which instead, looks at the influence of sectoral politics and decision-making structures. The insights that emerge about the workings of the EU indicate that a comparison between the most recent enlargement and the previous Spanish experience is a worthy exercise.

1. The Common Agricultural Policy and the European Community's enlargement to Spain

The CAP was developed during the early years of the European Community, when memories of famine and rationing from the Second World War still prevailed in the minds of policy-makers. Therefore, they decided that the policy should aim to rise farmers' income levels, keep them on the land and increase production. This was done mainly through two instruments: price support and structural policy, with the second remaining marginalised for many years.[1]

Price support operated through a complex system of protection at the border (the principle of Community Preference) and payments from the EC budget which guaranteed the stability of prices and maintained their level well above those in world markets. The system had the virtue of being popular with almost all farmers: the most productive and rich gained most (since the incentive is to increase production), but the poorest and less productive were at least guaranteed a minimum and stable income. It worked fairly well until the early 1970s when the EC became self-sufficient and started accumulating surpluses which, in turn, had to be dumped into world markets at additional cost to the EC budget which had to make up for the price difference (export subsidies). From 1971, the currency instability brought by collapse of the Bretton Woods system led to the creation of Monetary Compensatory Amounts (MCAs) to maintain the unity of the EC's agricultural markets, thus adding to the CAP's expenses. In this way, the CAP's costs spiralled out of control and threatened to bankrupt the EC budget by 1979, when Spain was knocking at the door.

With a less developed economy, Spain had a large agricultural sector and a high proportion of its population still on the land (30%) with much lower wages. Therefore, the main problem during Spain's accession negotiations was - as it is now with the CEECs- that if Spanish farmers were to get the same level of subsidies than their French and Italian colleagues got under the CAP, the EC would go bankrupt. Moreover, with lower costs and productivity, Spanish agriculture still offered a lot of room for the expansion of production (which the CAP's high prices would, in turn, stimulate) and this would lead to further surpluses and increases in the EC's budgetary expenditure. So, to make enlargement affordable, the Community had to reform the CAP or increase contributions to the EC budget.

Internal discussions about the reform of the CAP started with the Commission's proposals of the "1980 May Mandate" and ran "in parallel" with enlargement talks. In this way, Spain's accession became hijacked by the ongoing fight inside the EC, between those insisting on "budgetary discipline" (Germany and Britain) and those resisting it and demanding compensation for Mediterranean farmers who would lose out from increased Spanish competition (France and Italy). It was only after the main points of the reform and an increase to budget contributions had been agreed at the Stuttgart summit in June 1983, that the Commission could announce its first proposals for a negotiating mandate in the agricultural sector. It took the Council another eight months (February 1984) to agree on its position paper on agriculture, and still, the proposals on two key products, wine and olive oil, were not presented to the Spanish until the end of that year, with the deadline for concluding negotiations looming dangerously close.

The contents of these proposals were described as "very tough" by Manuel Marín, the Spanish Minister for Relations with the EC and deputy negotiator (*Le Monde*, 12/6/1983). This was because they intended to delay for as long as possible the approximation of prices (leaving Spanish producers in a competitive disadvantage), the opening of the EC market to the products in which Spain was most competitive ("sensitive" products), and the imminent expansion of Spanish production. The reason for trying to delay the introduction of the CAP to Spain was that the reform of the policy, agreed with much difficulty among the Ten between 1981 and 1984, had been insufficient to reduce significantly the costs to the budget that Spanish accession would imply. The raising of the ceiling in national contributions to the budget (also very difficult to agree among the Ten) solved the immediate financial problems of the Community, but did not allow enough margin to offer Spain a "generous" deal in the agricultural sector. These problems were most visible for three specific regimes: olive oil, fruits and vegetables and wine. I shall analyse them in turn.

1. 1. Olive oil: coping with an expensive new surplus

The most controversial sector in the agricultural negotiations was fats and oils, for three main reasons. The first problem was that, as the EC olive oil regime stood, incorporating Spain, the world's largest producer, would more than double the support costs of the sector (from 800 to 1645 million ECU). The regime had just been consolidated in 1978, under long time pressure from Italy to redress the North-South imbalance of the CAP and provided a far more generous level of market support than existed in Spain. Second, with the accession of Spain the Community would run an olive oil surplus of 23%. This was to be aggravated by the adoption by Spain of the CAP's trading regime for non-olive oils, which would reduce olive oil consumption, while at the same time, the introduction of a higher support level would stimulate production. Therefore enlargement would clearly be very expensive in this area and put the costs of the olive oil regime at a par with those of cereals and dairy products, which were the most expensive.

After three years of endless and fruitless discussions about how to finance and reform the olive oil regime, the Community came to a compromise position that it presented to Spain in October 1984: a long transition period of ten years during which price levels were to be approximated, divided in two stages, and regulations to limit the expansion of production is Spain. During the first stage of the transition period, prices in Spain would be raised at a slow rate (5% of the difference), during the second stage approximation would be accelerated, so that the complete alignment of prices would occur after the reform in the Community's olive oil regime had been achieved. This effectively postponed the full integration of Spain in this sector in a way that was somehow open-ended, because agreement to the controversial reform was far from obvious. In the meantime, Spanish producers were to receive a much lower level of subsidy than its Community counterparts. This was a big concession on the part of Spain, accepted under much pressure in exchange of a five-year "stand-still" period for the opening of the Spanish market to non-olive oils and oilseeds.

1. 2. Fruits and vegetables: protecting the existing members from competition

As in olive oil –but with less intensity-, the problems of enlargement stemmed from the creation of new surpluses (especially for citrus products) and from the financial and trade repercussions of approximating support measures. There were no guaranteed prices for fruits and vegetables as in other CAP regimes, but only punctual and limited compensations to producers in situations of great market disequilibria applied by "producer groups". Protection from third countries was minimal and was managed through a "reference price" which varied for each supplier. In addition, French and Italian Mediterranean

producers, who had long complained about the tenuous support offered by this regime when compared to those of northern products, were now to face Spanish competition as well. Their main fear was about the potential for the expansion of Spain's production, once it was stimulated by the higher levels of support existing in the EC.[2] So they stepped up their fight to strengthen the regimes for their products, and asked to impose a long transition period to the applicant.

As with olive oil, the disagreements among the Ten about how to reform of the fruit and vegetables regime delayed the establishment of the Community's negotiating mandate. On the one hand, the financial and trade aspects of enlargement confronted the southern member states (France, Greece and Italy) which wanted increased protection and funding for Mediterranean products, with northern members (Germany, Britain and the Netherlands) who refused increased costs and protection. On the other hand, France, Italy and Greece held different views about how to reinforce this regime and did not present a cohesive Mediterranean front. As a result, reforms to this regime were minimal, and the Community's negotiating position, presented in February 1984, represented a "tough stance" which, according to Fernando Morán, Spanish Foreign Minister and chief negotiator, violated the principle of Community Preference (*Le Figaro*, 22/2/1984). The EC proposed a ten-year transition period, divided into two stages. During the first one, lasting four years, there would be no dismantling of the Community's reference price system for Spanish imports, and although tariff barriers would be reduced, this left Spain facing the same conditions as non-EC Mediterranean suppliers. Moreover, in response to British and German concerns with "budgetary discipline", money was not to come from the European Agricultural Guidance and Guarantee Fund (EAGGF) for the setting up of producer groups that were necessary to implement the policy in Spain. The real transition would only start in the fifth year and would be carried out in eleven steps, but, even then, there would be "indicator levels" for both quantity and price of Spanish produce to keep imports at traditional levels (quotas).[3] According to the Spanish, these conditions amounted to making the access of their products to the EC more difficult than under the regime established by the 1970 agreement between Spain and the EC, which, at least, permitted national aids. This, President González insisted, constituted the bottom line of what was acceptable to Spain, which would not allow to be worse off than under the 1970 agreement (*Le Monde*, 11/3/1985). The rejection by Spain of these terms of entry further delayed negotiations, as the EC had to go again through the lengthy process of formulating is position, which changed very little from one version to the next and became even tougher.

As pressure on observing the time-table for concluding negotiations increased, and the Spanish realized that a substantial change in the Community's position was unlikely, they accepted these "tough" conditions, in exchange for

the introduction of a seven-year "complementary mechanism" for dairy, beef, wheat, and other products, that were "sensitive" for Spain. This also departed from the "classic" transition mechanisms and did not respect the principles of Community Preference and unity of the market because they were based on quotas. As a consequence, this was one of the sectors that Spain tried to modify after accession, brandishing the CAP principles of Community Preference, free movement of goods and unity of the market.[4]

1. 3. Wine: the new dimensions of old battle

The wine regime constituted the most notable case of the EC's incapacity to adapt its rules to the new reality after enlargement. The Community had long been attempting to deal with its wine surplus through the compulsory distillation of exceeding quantities and a number of incentives to reduce the vine area, which made this policy extraordinarily complex.[5] The EC's 'wine lake' was to grow with the inclusion of the Spanish sector, which possessed the largest vine area in the world. Given the low level of productivity, the main fear was that with the incentives of the CAP, Spanish productivity would increase greatly and thus add to the 'lake'.

Adding to the problem of finances present in the other "problem sectors", in wine more than anywhere else, the Spanish fell right in the middle of an old battlefield between France and Italy. The "wine wars" as they became known, dated from 1975 and involved French attempts to limit imports of Italian wine through the introduction of production thresholds (*El País*, 2/10/1984). Discussions went on inside the Community without much progress until the end of September 1984, when admitting that the deadline for the end of negotiations had already lapsed, the Irish presidency called an "informal" meeting of agriculture ministers to discuss in detail the French proposals and work towards an agreement for the European Council meeting of December (*Agra Europe*, 14/9/1984, P/4; *El País*, 2/12/1984). Predictably, Italian opposition was the main obstacle to the new Commission's compromise proposals, drafted in conjunction with the Irish presidency. Italy maintained that there was nothing wrong with the existing regime and rejected the idea of production thresholds, while most other members were in favour of some kind of restriction on the level of support for wine, because of the costs to the EAGGF.[6] In addition, a dispute between the Councils of Agriculture and Finance Ministers, where British, German and French representatives had been raising reservations about the costs of the new regulations, exploded in early October 1984, complicating things even further. The failure of the Community to agree on the wine issue at the end of October 1984 turned this into the only sector for which there was no 'common position' at the end of November 1984 (*El País*, 30/11/1984).

In December, a solution was found through a compromise by which compulsory distillation would only be triggered by a situation of 'serious market imbalance', instead of by fixed quantities. To allay Italian fears of French manipulation, it was decided that a 'serious market imbalance' could only be declared by the Commission and its definition combined a series of formulas which basically penalized *potential* productivity, rather than actual quantities produced. By this ingenious 'technical' modification to the wine regulation, adopted at the Dublin European Council meeting, the volume of wine that Spain would have to distill was much higher than that of France or Italy, where yields were already very productive and their potential for growth limited. Thus, although the Dublin formula opened the way for concluding negotiations with Spain, it represented a readjustment that did not tackle the underlying problems of the wine sector. It just managed to freeze the situation previous to enlargement and pass the costs of change to Spain.

In the final deal with Spain, the Community adopted this "tough" stance, which gave different treatment to old and new members. The Spanish accepted it under extreme pressure in the last marathon session in exchange for concessions in other issues, while deploring the extent to which "the use of double language was a common practice in the Community" and criticizing how the sacred principles of Community Preference and freedom of movement of products were not to be applied to their wine, fruit and vegetables, or oils and fats in the final deal (Tió Saralegui, 1985, 37).

2. The CAP and enlargement to Central and Eastern Europe

2. 1. The problems of CAP enlargement

The problems of extending the CAP to the CEECs today are similar to those posed by Spain's accession twenty years ago. All the candidates, with the exception of the Czech Republic have much higher levels of people employed in agriculture than the EU average (which today is 4.8% of the active population). In this respect, Poland is the most problematic, because of its absolute size, and because around 18% of the active population works in that sector, but Lithuania and Latvia are not far behind (see table below).[7] This is aggravated by sharp income and price disparities between the candidates and existing EU members, lower production costs, the much higher contribution of agriculture to their GDP (3 to 4 times those of the EU) and much smaller size of holdings (Mayhew, 2000b, 8). Therefore, aligning prices and support measures would clearly be very expensive for the EU budget. Official estimates of the costs of extending the CAP to five of the CEECs (the so called "Luxembourg group") pointed to an increase of around 20% of the agricultural guideline and 9% on the overall EU budget (Ardy, 2000, 93). And with the decision at the Helsinki European

Council in 1999 to extend negotiations to five other countries, this optimistic financial framework has required revision (CEC, 2001).

GDP per capita and agriculture as % of GDP in the Associated Countries

	GDP/cap. 1997 current prices +exchange rates	GDP/cap. 1997 current prices and pps	Agriculture and fishing in gross value added	Agriculture in total employment
	as % of EU average		%	%
Bulgaria	6	23	15.4	24.2
Czech Rep.	23	63	4.6	4.3
Estonia	15	37	7.9	7
Hungary	21	47	6.7	8.2
Latvia	10	27	10.8	17.8
Lithuania	12	30	11.7	22.5
Poland	16	40	7.5	25.7
Romania	7	31	20.7	37.3
Slovak Rep.	17	47	6.0	7
Slovenia	43	68	4.4	63
Total	15	40	8.7	22.4
EU average			2.3	4.8

Source: Mayhew (2000b, 8) (Eurostat data).

To make things worse, the CEECs' main products are precisely those which are already in surplus and thus responsible for most of CAP expenditure: cereals, milk, meat and sugar (in the same way as olive oil and wine in the Spanish case). Cereal production of the ten CEECs, for example, was in 1995 equivalent to 43.8% of the EU-15. The expected increase in production, given the incentives embedded in the CAP, would increase this figure by 12.3%, while the CEECs already run large agricultural surpluses. Dumping the new surpluses on world markets would cause large expenditure in the form of export subsidies and is incompatible with the EU's trade commitments at the Uruguay Round and the World Trade Organization.

There is also the problem of whether the new members can apply the CAP to their agricultural systems without creating too many distortions to their economies. To give an idea of the size of the problem, applying the present CAP in Poland (i. e. aligning prices to those of the EU) would rise agricultural income by 47%, greatly benefiting farmers, but at the expense of the EU's budget, a huge hike in food prices (affecting consumers), and substantial inflationary pressures (Ardy, 2000, 92). A further consideration about giving farmers a big

income boost is that they are a minority even in rural areas and there could be equity issues and tensions emerging among the rural populations.

Another important problem is that the quick introduction of EU guaranteed price levels in the CEECs would retard structural reform, intended to reduce the number of people working on the land and increase the size and productivity of holdings. And large rural populations are very costly to the budget, especially since the policy has been geared in the direction of direct income payments. Hence the insistence on accelerating structural farm reform as part of the pre-accession strategy. For this purpose the EU has directed aid directed towards the applicants as part of the strategy: 2.5 billion Euro were directed to the first group of five candidates in rural development measures together with 0.6 billion of pre-accession agricultural aid for the second group of five candidates (Ardy, 2000, 95).

2. 2. The accession negotiations

The EU's way of dealing with these dilemmas comprises two elements which resemble what happened during Spain's accession. First, enlargement was linked to a reform of the main regimes that would cause trouble, in order to curb future expenditure. Second, given that these reforms have again been insufficient to cope with the consequences of enlargement, the EU's proposed terms of entry consist of long transition periods for the full adoption of the CAP by the new members. The length of the proposed transition periods, longer in agriculture than in any other sector (except perhaps environmental policy), is justified by the EU in terms of the large differential that exists in price levels between the two sides, which for some products, like tomatoes, goes up to 80% ("Agenda 2000"). A faster alignment of prices would lead to serious hikes that might result in inflation inside the new member states and delay structural reform. But there is also (as there was for Spain) the rationale of avoiding a sharp increase in CAP expenditure, over which the EU put a ceiling at the Berlin European Council of 1998.

With regard to CAP reform, the Madrid European Council of 1995 asked the Commission to evaluate the effects of enlargement on Community policies, particularly with regard to agricultural and structural policies (Avery and Cameron, 1988, 35). The ensuing document, "Agenda 2000", was presented in July 1997 as a "package" that included three main elements: the financial framework for 2000-2006, proposals to reform the CAP and the structural funds and a strategy for enlargement. Once again (as with Spain in the past), enlargement and CAP reform were linked. The main element was to deepen the 1992 MacSharry reforms by continuing with the movement towards world market prices, compensated by direct income aids, in the context of a fully

fledged "rural development policy" which intends to de-couple levels of support from levels of production.

The Commission's proposals of March 1998 envisaged specific measures to revise the regimes for the products that were most problematic in the context of enlargement: arable crops, beef and dairy products. According to these proposals, intervention prices were to be reduced by 20% for cereals, 30% for beef and 15% for milk. These reductions (which for milk will not start until 2005) were to be compensated by direct income payments of various types, while the milk quotas were to be increased.

As soon as they started being discussed inside the Union, the proposed reforms encountered strong opposition on two fronts: first, from some member states, headed by France, and from farmers across the Union (*Financial Times*, 23/2/1999); second, from Germany, Britain, the Netherlands and Sweden, who criticized the increase in budget expenses that direct payments would bring.[8] In this context of internal disagreements, the EU did not present a position paper on agriculture to the candidate countries before January 2002, thus delaying the discussions on the agricultural chapter until the very end of accession negotiations.

The initial EU position, outlined in "Agenda 2000" by the Commission, constituted "tough" news for the CEECs: none of the direct payments were to be extended to them because they were a compensatory measure for the reduction of a guaranteed price level that farmers in the CEECs never got in the past. The problem, however, was that such a system would put them at a disadvantage in the competition with their Western counterparts.[9] Moreover, it is important to note here that this was not simply a problem of "money" (i. e. equity in the distribution of resources), but one of "principle", which is much more serious, because the proposal entailed, to a certain extent, the use of a "double standard" on the part of the EU with respect to the application of the *acquis*, which the new members are expected to apply fully and without derogations.

Since it became politically unacceptable to apply a two-tiered CAP indefinitely, the EU's position paper for accession negotiations in the agricultural sector, presented in January 2002, envisaged a slow introduction of such direct payments over a long transition period of 10 years, starting with 25% in 2004, raising to 30% in 2005, 35% in 2006, and reaching 100% by 2013 (CEC, 2002). Still, angry reactions on the part of the CEECs followed. They argued that such "second class" treatment was "unacceptable", which is exactly the same wording used by the Spaniards in 1983 (*El País*, 29/1/2002; 18/02/2002; 5/3/2002). The proposals became particularly problematic in Poland, where the People's Party, based on an agricultural constituency,

announced its intention of campaigning against a "no" in the referendum that is to take place over accession, thus putting Polish negotiators under pressure to obtain a more generous deal from the EU.[10] Farmers elsewhere in Central Europe have criticized these conditions which will put them at a disadvantage (*BBC News*, 4/12/2002).

More importantly, the proposal was also problematic for Germany and those member states who sought further CAP reforms, because a commitment to phase in direct payments to new members would make it more difficult to phase them out for the enlarged Union in the future. And agricultural subsidies are an issue that belongs to the wider (and fiercer) debate inside the Union about the EU budget. Thus, like with Spain, the accession negotiations of the CEECs have fallen right in the middle of an old dispute inside the Union about the distribution of common resources, which has complicated the discussion of the agricultural chapter with the candidates. This time, however, the German government left clear at the Berlin Summit of 1998 that is it not prepared to pay extra money into the EU budget, so the problem remained of who would pay for the costs of enlargement.

In "Agenda 2000", the Commission estimated that enlargement could be carried through with the budget remaining within the existing limit of 1.27% of the Union's GDP, which was well received by the governments of the member states. Given the pressure from net-contributors for "fairer burden-sharing", a more ambitious financial proposal for an increase in the budgetary ceiling would not have been politically viable. There were, however, serious doubts on the part of the Commission and the European Parliament about whether the budget would be enough to cover for the agricultural and structural funds after enlargement (Avery and Cameron, 1998, 121 and 131). The issue of reforming the amount and manner in which the EU collects and spends its "own resources" has therefore been postponed until after enlargement, as a way to prevent this difficult negotiation from getting in the way of the CEECs' accession.

The issue was finally settled among the member states on the eve of the Brussels European Council of October 24, 2002, when a Franco-German deal put an upper limit to agricultural budget expenditure between 2003 and 2013 in exchange for a freezing of the CAP reforms between 2004 and 2006. This agreement inside the Union gave the Commission and the Presidency a mandate to finalize enlargement negotiations, but it did not translate into a substantial improvement of the initial EU negotiating position with the candidate countries, and the issue of direct payments lingered on until literally the very last minute of enlargement negotiations at the Copenhagen summit of December 13, 2002. Then, a compromise package, formulated by the Danish Presidency and approved by the member states the night before, proposed to allow the candidate

countries to "top-up" direct payments with national funds up to 30% above the phasing in levels. Up to 40% of these "top-up" could be co-financed by the EU budget (from their own allocations) until 2007 (CE, 2002b).

Many of the candidates were ready to settle on those terms, but Hungary, the Czech Republic and Slovakia clustered behind Poland´s hard stance of standing up until the last minute to squeeze out an extra two billion euro from the EU. In the end the agricultural package was accepted by the candidate countries in exchange for a budgetary manoeuvre which allowed for the creation of a new "X" heading in the enlargement budget that provided a 900 million Euro "cash-flow facility" for Poland in 2004 and 300 million for the other nine acceding countries, as well as their budget rebates. Since in 2004-2006 the EU payments to the candidates would not reach the 40.5 billion Euro agreed at the Brussels summit (the Commission had estimated only 25 billion Euro) it was agreed that the remainder could go to the new "X" heading (EU Presidency, 2002, Annex 1).

Summing up, the main problem of CAP enlargement to the CEECs has been similar to that faced by Spain: for a variety of reasons, the financial resources to fully extend the CAP (as it stands) to the new members are not available. This, in turn, has had the effect of producing "tough" proposals in the negotiations on agriculture on the part of the EU, by which the costs of extending the CAP are partly being passed onto the applicants. These difficult terms of entry are accepted by applicants in return for side-payments in other areas: for Spain it was a large chunk of the Structural Funds, and its participation in the Integrated Mediterranean Programmes (IMPs); for the CEECs it has also come from the Structural Funds, Heading "X" and budget rebates.

These agreements have allowed enlargement negotiations to conclude successfully but store problems for the future because the drawing of a new "financial perspective" is due in 2007, when the new members will have a voice and a veto that they will use in order to redress what they now view as an insufficient deal. For this reason, according to a senior Commission official, "the negotiations of 2006 for the new "financial perspective" are going to make the "tough negotiations for "Agenda 2000" look like a picnic". The issue here is whether the new members will end up acting like the British, who, having got a "tough deal" at the time of accession, negotiated a budgetary rebate three times after joining. Equally, the Spanish attempted to renegotiate the regimes where they felt they had obtained a "tough deal" during accession negotiations, fought for more structural and regional funds in a staunch way, and promoted further revisions to the agricultural *acquis*, in order to reverse, through secondary legislation the most unpalatable parts of the accession treaty. The question that

emerges is therefore: why has the EU repeatedly produced "tough" proposals to the candidate countries in the agricultural chapter, even at the risk of provoking future enlargement "indigestion"?

3. Accounting for the similarities: Why is the EU perceived as a "tough" negotiator in this sector?

This is an important question, especially given the fact that the actual amounts of money involved are not that great in relative terms. The budget of the EU remains small when compared with national levels of expenditure. Moreover, according to the existing financial framework, only around 16% of the total budgetary expenditure of a Community of 21 countries would go to new members, with the remaining 84% being available for existing EU members (Mayhew, 2000, 17).

The most commonly invoked reason for this attitude on the part of the Union towards Central and Eastern Europe has to do with the convergence criteria of EMU and the Stability Pact, by which member states have to cut public spending, making it difficult to increase expenditure for the EU. Another crucial obstacle to making a generous offer to the candidate countries has come from the German government, the main contributor, which being burdened with the financial costs of reunification since 1991 and having experienced a "normalization" of its status in the international system, finds its difficult to keep "subsidizing" the EU in the same way as it did in the past. To this must be added that Social Democratic governments have never been as fond of subsidizing agriculture as their Christian Democrat counterparts.

Although perfectly valid for the most recent enlargement, these punctual reasons cannot account for the similarities with accession of Spain that have been highlighted in section 2. Other reasons, susceptible of generalization, are therefore important to consider as well.

3. 1. The intergovernmental approach: a distributional conflict among states

The first argument to consider is an "intergovernmental" explanation which portrays the problems of enlargement as part of a dispute between those member states that are "net contributors" and those who are "net recepients" to and from the EU budget. On the payments side, the fact that transfers to the EU are a missed opportunity to spend at home, which is more profitable in political/electoral terms, was a particularly powerful reason for the member states' reluctance to extend national contributions to the EU budget during the "Agenda 2000" negotiations, as it had been during Spain's accession until the Fontainebleau summit of 1984. On the receipts side, no member state wants to

give up what they already have acquired, and transfers from the EU are regarded as "bringing home the bacon" (Laffan and Shackleton, 1996, 72). The Spanish resistance to give up its receipts from the Structural and Regional Funds has surfaced in several occasions during the present enlargement process (see for example: *El País*, 21/04/2001), despite the fact that Spain suffered during its own accession negotiations from a similar attitude on the part of France and Greece. Likewise, Italy has also warned it could slow down enlargement if the South is not duly compensated (*El País*, 18/03/2001).

However, upon closer analysis, it turns out that even net contributors are reluctant to give up what they receive from the budget. For example, the UK Government, which is among the strongest supporters of enlargement, of CAP reform and of "budgetary discipline", is not prepared to accept any changes to the structure of its own budgetary rebate (Ardy, 2000, 100, quoting the House of Lords). And, over the years, German agriculture ministers have successively been amongst the strongest opponents of CAP reform, especially of bringing down guaranteed prices and switching the emphasis to direct payments, in open conflict with their own finance ministers who were the ones advocating "budgetary discipline". Germany's ambivalence towards CAP reform was one of the main factors that slowed down Spain's accession (Ruano 2001). It has also been behind the Franco-German deal which, on the eve of the Brussels European Council, postponed reform of the CAP until after 2006. The same applies to Finland and Sweden, who consider their contributions excessive but would not be prepared to lose the funds they get for their "sparsely populated areas", as these are part of the compensatory deal during their accession in 1995, in exchange for aligning their guaranteed prices down to those of the EU. So, rather than a simple division between net contributors and net recipients, all member states display both an unwillingness to pay more into the EU budget and a strong reticence to changes in what they get from it, making the reforms to prepare the CAP for enlargement all the more intractable.

In other words, the intergovernmentalist explanation lacks accuracy because it assumes a clear and prioritized definition of the member states' "national interest", and, at least for the case of the CAP, there are tensions inside each member state between a "sectoral" logic and a "global" perspective. This is not surprising, given the EU's decision-making structure, as it is the specialized Councils who deal with the specifics, and there, a "narrow" view prevails.

3. 2. The organizational approach: CAP stability and decision-making

When agriculture ministers meet in the Agriculture Council to discus the reform of the beef regime, they do not have at heart the strategic and political implications for enlargement as much as foreign ministers meeting in the

General Affairs Council. In this respect, agriculture is a particularly well insulated sector at the EU level, as most ministers (even the French and British) escape the national coordination mechanisms that operate with most other ministers (Ruano, 2001). This explains why, when it has come to general decisions about enlargement as a whole, everyone has been in favour: from a "global" perspective it is known that this enlargement, like the previous ones, especially to Spain, Greece and Portugal, *is* "in the interest" of all the member states from a political and strategic point of view, because it is seen as the main way to stabilize the region and help to the consolidation of these new democracies. But as soon as enlargement had to be "unpacked" into its concrete consequences, national interests became fragmented into their constituent "sectoral logics" which were often contradictory, and these contradictions (usually between paying and spending ministries) got projected into the EC arena and there became amplified.

In other words, what the candidate countries from Central and eastern Europe regard as a "stingy" attitude on the part of the member states is a recurrent phenomena that has been present in previous rounds of enlargement and that can be explained in organizational terms. The fragmented nature of the policy process in the EU, where mechanisms of horizontal coordination are weak in comparison to national ones, is one of the main reasons for keeping CAP reforms to a minimum, warding off pressures coming from other sectors like industry, trade and foreign affairs, which are more favourable to enlargement. The path-dependent way in which the CAP evolves has prevented important and radical revisions that were necessary to cope with the disruptions that each enlargement brought to the agricultural sector. This has had the effect of producing "tough" negotiating positions on the part of the EU in the agricultural chapter, aimed at delaying for as long as possible the introduction of the CAP in the new members and passing much of the costs of adaptation onto them.

As a consequence of the insufficient way in which the CAP has been changed to cope with enlargement, the other re-distributive arrangements of the EU, in particular the Structural Funds, have had to change considerably, as means of compensation. In the case of Spain's accession, the creation of the IMPs (which compensated existing members) and of the Cohesion Fund (which compensated Spain) helped the EC to maintain the CAP more or less as it was. This also happened after the first enlargement when the European Social and Regional Fund (ESRF) was created as a means to compensate Britain for its adoption of an agro-budgetary arrangement that did not suit its characteristics. With the 1995 enlargement a new "Objective 6" had to be created in the Structural Funds for scarcely populated areas in Finland and Sweden (Wishdale, 1996). Today, the reform of the thresholds for allocating Structural Funds,

together with transitional budgetary rebates have constituted a "sweetener" for the harsher deal the CEECs have had to swallow in the agricultural sector.

CONCLUSIONS

Despite the fast pace at which chapters were closed during the enlargement negotiations with the CEECs, the crucial ones of agriculture and the budget were left until the very end. Like during the Spanish accession, the negotiation of the agricultural chapter held some surprises and last minute hitches which truly threatened the whole enlargement process, especially for Poland, which has been called "the Spain of the current enlargement to the East" (*El País*, 2/5/002).

The candidate countries from Central and Eastern Europe are similar to Spain in the early 1980s in terms of having a large proportion of their population still working on the land with much lower wages and productivity, and, more importantly, they have surpluses in exactly those products for which the EU is already self-sufficient. Thus, in budgetary terms, the same unwillingness that Spain experienced on the part of the existing members to extend the CAP to new members has resurfaced (more vigorously) in the current negotiations with the CEECs.

The result is that, to keep in check the costs of "CAP enlargement", the EU has proposed long transitional arrangements during which farms subsidies are to be slowly phased in to new member states. Although this proposal is technically justifiable and financially acceptable for the member states, it puts new members at a "competitive disadvantage". This is particularly problematic for the legitimacy of the Union´s agricultural policy among the new members and opens the door for endless renegotiations after accession, especially in 2007, when the next "financial perspective" is to be drawn. It will also make the reform of the CAP, now postponed until 2006, much more complex, as the new members will most probably resist any cuts in spending, for their agrarian economies are bound to gain from the policy when it applies fully to them. Is the European Union bound for enlargement "indigestion" as the new members attempt to redress what they see as "tough" terms of entry?

The benefits of a comparison with the Spanish accession to the EC stem from an appreciation of the more general problems of EU enlargement for the agricultural sector. Because of its financial implications, EC/EU enlargement has always constituted a strong pressure (among others) to reform the CAP. Both elements have been linked together in every round of accession negotiations, of which agriculture has been the last and difficult chunk. The over-representation of agricultural interests, poor inter-sectoral coordination at the EU level, and the fact that the benefits of enlargement are hard to quantify

because of their diffusion, while the visible costs are clearly concentrated in the policy area of Agriculture, account for the apparent "toughness" of the EU when it comes to enlargement negotiations in this area. Like during Spain's accession, the recent reform of the CAP remains insufficient to cope with enlargement, in particular with its costs. Again, reform has been crafted in such a way to prevent existing members from losing out too much, while most of the costs of adaptation of this old policy to a larger Union get passed on to the applicants, or compensated through the Structural Funds.

Finally, the comparison also allows to see the shortcomings of a purely intergovernmental approach and highlights the benefits of an organizational approach which takes account of the fragmentation of "national interests" at the EU level which make the reform of redistributive arrangements necessary to cope with enlargement in the agricultural sector all the more intractable. This approach provides some tools to understand why the "CAP tail has wagged the EU dog" over successive rounds of enlargement.

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Notes:

[1] For the history of the creation of the CAP, see Hendricks (1999). The following account of the CAP's evolution is based on the works by Tracy (1989), Fennell (1997) and Grant (1997).

[2] The Commission's "Opinion on Spain" devoted a special section to Spanish agricultural potential, CEC (1978d, §§ 77-81).

[3] The transition period organized in stages had been proposed by France and Italy from the beginning, and rejected by Spain: *El País* (6/10/1982); *El País* (23/11/1982); *Agra Europe* (24/2/1984, P/3).

[4] Shortly after the signature of the Treaty of Accession the Spanish started their battle against discrimination against their citrus products (*El País*, 22/10/1985).

[5] For subsequent attempts to simplify the wine regime see Grant (1997, 137-140).

[6] On this point, Germany faced a difficult situation, because its concerns with "budgetary discipline" conflicted with its sympathy for Italian arguments, as its own wine producers would be hit by these measures (*El País*, 21/11/1984).

[7] There are problems of measurement for Poland, partly because of the Polish method of counting, and it is now generally accepted that the 25% figure provided by Eurostat data is too high, while the figure of 18% provided in the latest Commission "country reports" is seen as more accurate.

[8] The proposed reforms have the paradoxical effect of increasing the immediate costs to the budget, because much of the subsidies that before were paid indirectly by consumers buying at higher prices are now to be covered by the budget through direct payments (Ardy, 2000, 95). Their virtue is that they stabilize the level of expenditure in the long run, as it stops being related to ever growing levels of production.

[9] The competitive disadvantage that farmers in accession states are put at has to be offset against their cheap labour and land, but this in turn is offset against quality issues.

[10] The deputy Prime Minister and Agriculture Minister Jaroslaw Kalinowki, who as leader of the coalition partner in the government is also the head of the agriculture-based Peasant Party, has assumed a crucial position in the talks between Poland and the EU. For the politicization of the adoption of the CAP in Poland see Epstein (2002). For the Polish position during the last negotiating sessions see *BBC News* (3/12/2002) and *European Report* (14/12/2002).