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**Internal Weakness as External Strength:  
European Integration and Agricultural Trade Liberalization in GATT**

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ALL COMMENTS WELCOME!

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Paper Abstract

How has the degree of institutional integration in Europe affected the bargaining strength of the European Community (EC) in international negotiations? In other words, does unity bring strength? This paper explores how internal divisions in the EC have impacted the process and outcomes of the Kennedy and Uruguay Rounds of GATT negotiations on agricultural trade liberalization between the European Community and the United States. Contrary to the conventional wisdom that degree of integration and external bargaining strength are positively correlated, this paper determines the conditions under which regional integration can be used as an asset or a liability in international negotiations. It argues that the EC external bargaining strength depends on the voting rules and practices at the EC level, the amount of flexibility granted to EC negotiators, and the nature of demands in external negotiations. Comparison of the US-EC negotiations on agricultural trade liberalization in the Kennedy and Uruguay Rounds suggests, indeed, that the intensification of integration in Europe has not been accompanied by a similar intensification of the EC bargaining strength vis-à-vis the US. The negotiating processes in the two rounds are examined in detail and it is concluded that it is when acting divided and unable institutionally to negotiate that the EC obtained its most favorable results. The EC bargaining position was enhanced in the earlier years because the partially coordinated positions of the EC within a weak supranational polity rendered credible the threat that it would be unable to offer concessions. In a second phase of the integration process, by contrast, the institutional constraints are fading and internal concessions made for preserving the solidarity of the integrated entity no longer seem necessary. As a result, its negotiating positions are less prone to capture by a radical country and the negotiators for the union may find themselves in a lower bargaining position than in the first period. Policy implications of these findings are examined in the conclusion.

## Introduction

How has the degree of integration in Europe affected the bargaining strength of the European Community (EC)<sup>1</sup> in international negotiations? In other words, does unity bring strength?

Prevailing rhetoric by many European politicians and traditional literature on regional integration have assumed that the intensification of economic and political integration in the EC would enhance its relative power in negotiations with third countries. Despite this conventional wisdom, however, it is not clear that the Community's external bargaining strength is positively correlated with its degree of internal integration. To the contrary, bargaining analysis and negotiation literature suggest that internal constraints, both of a political and institutional nature, can sometimes be used to the advantage of the divided party in external negotiations. Therefore, an increase in institutional unity in Europe could translate in a decrease of bargaining assets for the EC in international negotiations. Which of these two analyses predicts best the evolution of the EC as an international bargaining actor? This paper explores how internal divisions in the EC have impacted the process and outcomes of several negotiations on agricultural trade liberalization between the European Community and the United States in GATT.<sup>2</sup>

Practitioners of international negotiations have long known that the difficulty to reach a domestic consensus can become a major external bargaining asset (Winham, 1979). Indeed, internal constraints can be manipulated to one's advantage in certain conditions, which have been originally eluded to in the social science literature by Schelling (1960) and more recently by Putnam's famed two-level game metaphor (1988). Hence, the bargaining leverage of a country involved in international negotiations is not a positive function of its degree of internal unity. To the contrary, internal weakness can sometimes be source of external strength.

The cumbersome institutional set-up of the EC forces European negotiators to face a supplementary level of bargaining. International negotiations in which the EC takes part are played simultaneously on three game boards: international, EC-wide, and domestic (Moyer, 1993). Therefore, the conflicting demands of each member state, themselves determined by the conflicting demands of various domestic groups, have to be

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<sup>1</sup>For reasons of convenience, the designation "European Community" or "EC" will be primarily used throughout this paper. The chronologically accurate designation of the EC is more complex and confusing. At the time of the Kennedy Round the Europeans were grouped under the "European Economic Community," also called the "Common Market." Under the Merger Treaty in 1965 the executives of the three institutions --the European Coal and Steel Community, the European Economic Community and Euratom-- were fused into one to become the "European Communities" or EC. Since the implementation of the Maastricht Treaty in November 1993, the broader European institution is now called the "European Union," while the EC is still the body in charge of economic and trade policy.

<sup>2</sup>The General Agreement on Tariffs and Trade (GATT), in effect since January 1948, is a multilateral trade treaty whose main objective is the establishment of an open, liberal and competitive world trading system. Periodically the GATT also serves as a forum for negotiations on the reduction of trade barriers and the creation of international trading rules. Originally signed by 23 founding countries, it has 119 members at the time of writing.

reconciled before EC negotiators can reach international agreements. The present paper does not pursue the three level game metaphor, however. I will not attempt to explain how each member state reached its preferences but take these as given. Instead, I will focus on the EC as a single actor, albeit deeply divided internally, and consider the effects of its divisions and bizarre institutions on international negotiations.

This paper proposes to determine how the degree of integration in the EC affects its collective bargaining capabilities at the international level. Looking at the evolution of institutional mechanisms in the EC to aggregate internal divisions into a coherent external bargaining position, the paper analyzes the conditions under which the intensification of integration becomes an asset or a liability in international negotiations. The EC external bargaining strength, this paper argues, depends on the voting rules and practices at the EC level, the amount of flexibility granted to EC negotiators, and the nature of demands in external negotiations. This paper also tries to assess which country has the most to gain and the most to lose by negotiating as a single entity when its interests diverge from those of its partners. Finally, the paper will address some policy implications of the finding that an increase in internal integration is not always achieved at the expense of third countries.

Answering the question about the relationship between institutional unity and external strength might help explain an apparent paradox observed in negotiations on agricultural trade liberalization between the EC and the United States. A comparison between US-EC agricultural negotiations in the Kennedy Round (1964-1967) and Uruguay Round (1986-1993), which shared similar objectives and protagonists, suggests that the relative bargaining strength of the EC vis-a-vis the US has not dramatically improved since the 1960s, when the EC was still a young organization and the nascent Common Agricultural Policy was being put in place. On the contrary, the EC obtained favorable outcomes in negotiations with the US when it was institutionally weak and inexperienced and less favorable outcomes when European integration had gained institutional experience and momentum. Why, instead of enhancing the bargaining strength of the EC, as European politicians have claimed and social science literatures have predicted, has the continuing movement toward integration paradoxically led the Community to yield more to American demands?

Agricultural trade liberalization provides a good illustration of the predictions of the political impact of the integrative process on the EC's negotiating strength. The Common Agricultural Policy (CAP) and the common commercial policy are two of the longest integrated policies in the EC and have been central components of European integration from the beginning. Also, there are no other sector than trade policy in which the EC Commission has taken over negotiating functions so extensively. Moreover, unlike other sectors up for negotiation such as industrial goods or intellectual property, agriculture is a domain in which US and EC negotiators have fought to satisfy antagonistic interests. Consequently, in both the Kennedy and Uruguay Rounds, the US and EC relative bargaining strength are easier to identify. Furthermore, agricultural negotiations were given an extreme, rather incommensurate importance in both rounds. While agriculture accounts for only 11 percent of world trade today, the recent GATT negotiations were dominated --and held up-- by the agricultural dispute.<sup>3</sup> Thus a concession in agriculture could be interpreted as a concession of the round of negotiations

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<sup>3</sup>US-EC bilateral trade is dominated for 80% by manufactured goods. By contrast, agriculture represents only 10% of the US and 5% of the EC exports to each other, while it generates most of the bilateral trade disputes (Schott, in Harrison, 1993, p. 393).

as a whole. Finally, it is appropriate to study the agricultural negotiations as their evolution appear to contradict the claim of increasing EC bargaining strength.

This paper first introduces the political and theoretical rationales supporting the traditional claim that, in the European context, unity brings strength. The second section, based on negotiation analysis and two-level game literature, argues that internal weakness can sometimes become source of external strength and presents the conditions under which increasing internal integration is an asset or a liability in external negotiations. The third section presents the actual outcomes and assesses the EC relative bargaining strength in the Kennedy and Uruguay rounds agricultural negotiations. Focusing on the negotiating process in the two rounds, Section Four finds that the EC derived bargaining leverage from the "tied hands" of its negotiators as a result of weak integrated institutions and lost this edge when better internal decision-making procedures empowered Community institutions. The Conclusion explores some policy implications of the finding that internal weakness may be source of external strength.

## I- Unity is Strength: Rhetoric and Theory

The belief that economic and political unity would put Europe on an equal basis with the United States in the conduct of world affairs, including in the formulation of world trading rules, has long been anchored in politicians' rhetoric in Europe and, to some extent, in the US. That integration would increase the international strength and prestige of the EC member states has been a popular political slogan across Europe. This belief is not firmly grounded in theory, but no one has systematically tried to disprove the scattered theoretical arguments in its support. Therefore it has become the conventional wisdom that more integration in Europe would increase the EC's chances of success in international negotiations. Because unity is expected to bring strength, it has been traditionally assumed that degree of internal integration and external bargaining leverage were positively correlated.

### 1) Rhetorical claims

The initial motivations of European policy-makers for fostering unity in Western Europe and setting up the EC institutions were primarily economic (to improve standards of living and create a large market) and security-related (to act as a bulwark against the progression of communism and prevent the return of a nationalist Germany). One of the less avowed goals of integration was to restore Europe's past might and transform it into a force equal to that of the United States.<sup>4</sup> Integration arose from the loss of influence of Europe, sanctioned by the Second World War, and coincided with the demise of the European colonial empires. Europe relayed dreams of grandeur for some politicians, who pledged to use European unification to bring back international strength. Even Jean Monnet, the pro-American "founding father" of the European Community, envisioned building a European bloc equal to the US in economic and political strength. His goal was to realize an equal partnership between the US and Europe.<sup>5</sup>

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<sup>4</sup>Some American actors of this period deny that this was ever an underlying motivation, but there is plenty of evidence to the contrary, starting with Jean Monnet's own writings and testimonies.

<sup>5</sup>In "Jean Monnet's Methods," François Duchêne, a Monnet collaborator, writes: "Few contemporaries beyond a restricted circle of like-minded reformers ever fully grasped the paradox, in traditional, national terms, of Monnet's refusal to be a European nationalist, and yet his determination that a uniting Europe should achieve 'equality' with the United States. It is ironic that Gaullists saw Monnet as a pawn of the

The "third force" mythology was omnipresent in the public debate in Europe in the postwar years. German and Italian politicians were using the assumption that European unity would bring strength in order to mobilize political forces longing for a new form of national identity.<sup>6</sup> Of all original members of the EC, however, the French were particularly adamant in resisting the US to demonstrate Europe's new strength and independence. Immediately after the war, French socialist Léon Blum suggested that the Europeans should form a common political alliance in order to improve their standing vis-à-vis the United States. This motivation for furthering European integration culminated in the Gaullist period, contemporary of the Kennedy Round, when the idea that Europe had to demarcate itself from the two blocs and become a "third force" emerged. According to this political rhetoric, the movement toward European integration was the first step toward independence from the American tutelage.

The reasoning that applied to political relations also applied, with even more vigor and persuasion, to trade relations. The idea that being united would give the Europeans a greater bargaining leverage vis-a-vis the US has been commonly assumed in the European press since the early days of European integration. Indeed, this argument was a justification for the creation of a common commercial policy early on in the integrative process --and its consequences were feared by the US administration. The spillover logic was expected to be at work in the domain of external relations: "speaking with one voice" in trade affairs would lead to an increased international power of the EC, ultimately translated into common foreign and security policy.

The "third force" rhetoric and the feared consequences of the Common External Tariff were at the heart of the Kennedy Round discussions. The subsequent advances toward broader and deeper European integration led to even higher expectations that the EC was going to use its reinforced leverage to assert a new world leadership role in trade policy in the Uruguay Round negotiations. In the 1980s, officials from the EC Commission said that their effectiveness was constrained by the limited scope of their trade negotiating powers. As economic and political integration progressed and the supranational powers of the Commission were strengthened, it was therefore anticipated that the EC's negotiating effectiveness would increase (i.e. Dryden, 1990, pp. 15-16).

Indeed, the Single European Act, which transformed the decision-making procedures in the EC and committed to complete the European internal market by 1992, provoked the fear of American negotiators. The US worried, first, that the EC would retreat behind fortress-like walls; and second, that the EC could now stand up and hold up to the US in bi- and multilateral negotiations.<sup>7</sup> Once the renewed efforts toward integration became publicized around 1987-88, a prevalent view was that "the rest of the world is feeling at worst considerable apprehension and at best a great deal of anxious

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Americans (thus jettisoning Monnet's cherished goal of association in equality); while Kissinger, in the *Years of Upheaval* (ch. V) viewed him as a subtler kind of European Gaullist proposing to obtain from America by stealth what de Gaulle hoped to snatch by defiance (thus jettisoning the stress on interdependence and cooperation)." (in Brinkley and Hackett, 1991, p. 204)

<sup>6</sup>In Italy, this argument was particularly popular with the anti-American right wing, but it was widely used and supported by all major political parties. I am grateful to Federico Romero for bringing this point to my attention.

<sup>7</sup>See Joseph Greenwald: "The return of self-confidence engendered by the Europe 1992 process has led the EC to be more contentious in disputes with its trading partners. European Commission officials say privately that, while the United States can push weak countries around, the Community can now stand up and slug it out with an aggressively protectionist United States." (in Hufbauer, 1990, p. 346)

uncertainty about what the effects of 1992 might be for their trade and economic relations with this looming economic superpower" (Golt, 1988).

Most of the official US understanding of the Single European Act emphasized the potential trade consequences of complete economic unity in Europe. American policy-makers did not discuss much the institutional transformations toward increased supranationalism resulting from the Single European Act. Once again, an institutionally stronger EC was assumed to produce yet a tougher EC bargaining stance in the GATT negotiations. The link between integration and political influence was more apparent during the debate on the 1991 Maastricht treaty on European Union, which provided steps toward further monetary and political integration. In the course of intense debates on the ratification of the treaty in several EC countries, an old political slogan, summarized by the following advertisement campaign in France, reappeared to mobilize troops: "Let's unite. And the world will listen to us."<sup>8</sup>

## 2) Theoretical assumptions<sup>9</sup>

Political rhetoric suggests that unity brings strength. Surprisingly, however, the social science literature contains neither a formal assessment of the power impact of unity, nor a systematic debate of the expected consequences of integration on the relations of the integrating region with third countries. One finds only scattered arguments, buried among discussions about the economic effects of a single internal market or the political consequences of community-building on the definition of a new European identity.

*Economic arguments:* Based on the assumption that economic strength can be translated into negotiating advantage, three broad lines of economic arguments suggest why bargaining strength is in theory positively correlated with degree of integration. First, by its very nature, a customs union protected by a common external tariff discriminates against outsiders. Thus, the integrating region derives bargaining advantage from being in the position of making concessions, while the outside country is automatically placed in a position of *demandeur*. Moreover the discrimination effects are more or less accentuated depending on the degree of trade diversion or creation engendered by economic integration, as was first argued by Jacob Viner (1950)<sup>10</sup> and has since become a standard argument among economists (i.e. de Melo and Panagariya, 1993). Second, liberal economic theory, underlying European integration from the outset, argues that market integration has the effect of enhancing competitiveness, through economies of scale in production, heightened competition, higher investment, and greater research and innovation. This enhanced competitiveness in turn increases the combativity and number of bargaining assets of the integrating region in trade negotiations with third countries. Third, a dependency argument shows that the removal of internal barriers to trade reduces the integrating region's dependency on outside economies, because it increases intra-regional trade, the number of consumers, and regional resources. Being more autonomous

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<sup>8</sup>"Qu'on s'unisse. Et le monde nous écoutera." September 1992. Author's translation.

<sup>9</sup>A more detailed survey of the theoretical arguments supporting the claim that from integration derives strength is provided in Meunier (in progress).

<sup>10</sup>Viner showed that patterns of production prior to the formation of the customs union determine whether integration will create trade within the region ("trade creation") or will shift production from outside to inside the region ("trade diversion") (Viner, 1950).

from the US, the EC can therefore refuse to make concessions and thereby increases its regulatory influence on world trading rules.<sup>11</sup>

*"Communitarian" theory:* The work of Karl Deutsch and other "communitarian" theorists showed that successive stages of integration could be expected to gradually build a sense of community in the region, at the expense of those excluded from this community (Deutsch et al., 1957). The argument was that by working together and becoming socialized as "Europeans," EC policy-makers, negotiators, and technical experts would progressively develop ways of working which would increasingly isolate those who do not belong to this network. According to communitarian arguments, the stronger the sense of European solidarity, the harder the EC defends its position against the US in trade negotiations, thereby strengthening the EC bargaining position.

*Political and institutional mechanisms:* The most detailed formulation of the institutional mechanisms through which regional integration in the EC could be translated into political influence at the international level was offered by the theory of externalization, developed by Philippe Schmitter within the framework of neo-functionalism (1969. See also Nye, 1971). Using European integration as an example, the theory of externalization claims that "one of the subsidiary motives facilitating the original convergence is a diffuse desire to increase the collective bargaining power of the area vis-à-vis other international actors." It also suggests that the regional unit can achieve international status and influence when the collective institutions are strengthened and more competences are transferred to the supranational level. The less national governments retain control over policy decisions, the more third countries will come to consider the regional entity as a whole and bargain to avoid the discriminatory effects of being "left out" from the sharing of the integration benefits. Therefore, deeper integration is expected to increase the international bargaining leverage of the European Community.

Other political scientists have claimed without much elaboration that, in theory, "acting in concert can generate significant bargaining power" (Lindberg and Scheingold, 1970). One reason may be that for the sake of preserving European unity, some member states may accept a common bargaining position which is not in their immediate interest and is not dictated by the institutional rules governing the EC. The Europeans will thus present in trade negotiations a common front against the US, which will not be able to drive a wedge between them and use the tactic of "divide and rule." This political mechanism might play a role especially during periods when European integration is jeopardized or, on the contrary, when political unity becomes a primary goal for European policy-makers.

The predictions derived from these theoretical assumptions are that each stage toward deeper institutional integration will be accompanied by an increase in the bargaining leverage of the EC in trade negotiations with the United States and in its ability to shape the world trade regulatory system. However, despite this widespread conventional wisdom perpetuated by the political discourse in Europe, it seems that the relationship between unity and strength is more complex and that another logic is at play. Could the weakness of the European polity be used as negotiating leverage for the EC in certain cases, and could the intensification of institutional integration in Europe, contrary to expectations, have been a liability for the EC in international negotiations?

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<sup>11</sup>On the relationship between foreign trade and national power, see the groundbreaking work of Albert Hirschman (1945).



## II- International bargaining when internal weakness is external strength

Practitioners of negotiations have long known that the difficulty to reach a domestic consensus can be an external bargaining asset (Winham, 1979). In fact, the bargaining leverage of a country involved in international negotiations is not a positive function of its degree of internal unity, as is conventionally assumed. To the contrary, internal weakness can sometimes become source of external strength. This section attempts to determine how the degree of integration in the EC affects its collective bargaining capabilities at the international level. It first presents analyses of the "paradox of the divided bargainer" in the social science literature, after which it explains how this paradox might apply to the EC as an international bargaining actor. The remainder of the section highlights the conditions under which the intensification of integration becomes an asset or a liability in international negotiations and assesses which country has the most to gain and the most to lose by negotiating as a single entity when its interests diverge from those of its partners. This simple model about the relationship between institutional unity and external strength might help explain the apparent paradox observed in negotiations on agricultural trade liberalization between the EC and the US in the Kennedy and Uruguay Round.

### 1) The paradox of the divided bargainer

Although it was first brought to the attention of political science audiences in 1960 by Thomas Schelling, the paradox of the divided bargainer was ignored by social science literature until very recently. Renewed interest has been expressed in the relationship between domestic and international bargaining, but the analysis has yet to be extended to the case of supranational institutions, such as the European Community.

#### *Schelling and the paradox of the divided bargainer*

In the pathbreaking *The Strategy of Conflict*, Schelling emphasized that a theoretical analysis of strategic behavior often yields counterintuitive results (1960). In particular, he pointed to a surprising paradox of international negotiations: in some conditions, internal weakness and division could be source of bargaining strength.

The well-known principle that one should pick good negotiators to represent him and then give them complete flexibility and authority --a principle commonly voiced by negotiators themselves-- is by no means as self-evident as its proponents suggest; the power of a negotiator often rests on a manifest inability to make concessions and to meet demands. Similarly, while prudence suggests leaving open a way of escape when one threatens an adversary with mutually painful reprisal, any visible means of escape may make the threat less credible. The very notion that it may be a strategic advantage to relinquish certain options deliberately, or even to give up all control over one's future actions and make his responses automatic, seems to be a hard one to swallow. (Schelling, 1960, p. 19. Emphasis added)

Schelling briefly attempted to explain the paradox that "in bargaining, weakness is often strength" by suggesting that having one's hands tied internally could be useful for extracting concessions externally (1960, p. 22). He presented the conditions under which taking options away from oneself (or the "power to bind oneself") confers strength in negotiations --mainly the "tying hands" strategy, characterized by inflexible negotiating

instructions and making highly visible to the opposite party. Using the example of the division of the US government into the Executive and the Legislative branches, Schelling suggested that internal division reinforced the credibility of commitments made in the course of the negotiations and enhanced the risk of stalemate. Hence, Schelling was the first to hint that, contrary to conventional wisdom, bargaining strength could be derived from a weak internal polity and a lack of cohesion among factions forced to negotiate as a whole. This analysis could help explain the apparently paradoxical evolution of EC bargaining strength in trade negotiations with the US since the Kennedy Round.

*The paradox of the divided bargainer and multilevel games analysis*

Since Schelling, the concept of divided bargainer has been applied in various fields of social science, such as industrial relations (Walton and McKersie, 1965) and the American politics literature concerned with "divided government" (i.e. Fiorina, 1992). Very recently, a literature analyzing negotiations in a "divided bargainer" framework has started to emerge in International Relations, and a few scholars are now trying to test empirically and formally the proposition that internal division may be source of bargaining strength under certain conditions.

Robert Putnam, who pioneered the analysis of international negotiations as a multilevel game, showed that the coexistence of the domestic and international levels imposes constraints on the negotiator, but may also become a bargaining asset in certain conditions (1988). Putnam observed that the outcome of the international negotiations was influenced by the size of the domestic "win-set" --defined as the set of all possible international agreements that would be accepted domestically on a simple up/down vote. Whereas larger win-sets make the international agreement more likely, Putnam claimed, a small domestic win-set can sometimes produce a more favorable distribution of gains in the international bargain. Loose institutional ties and the power to veto any detrimental proposal greatly contribute to reducing the size of the win-set. Following Putnam's lead, a group of scholars attempted to test empirically the interactions between domestic politics and international bargaining, including how internal divisions affect the success and distribution of gains in international negotiations (Evans, Jacobson, and Putnam, 1993). They concluded that although logically plausible and potentially beneficial, the strategy of the divided bargainer has not been used much or effectively in practice. None of these studies, however, address directly the issue of European integration and international trade negotiations (with the exception of Odell, 1993).

While the paradox of the divided bargainer is being submitted to empirical scrutiny, it is also being tested more formally. For instance, using simple concepts derived from game-theory and negotiation analysis, Mayer modelled the conditions under which division can be an asset or liability in international negotiations (Mayer, 1992). Other scholars (Laver and Underhill, ?; Iida, 1992; Milner and Rosendorff, 1994) tried to formalize the contingencies under which domestic divisions and constraints have a positive impact on external bargaining strength. These studies do not analyze, however, the specific case of regional integration, in which the external negotiating position is determined both at the level of national governments and the collective level.<sup>12</sup>

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<sup>12</sup>Another current research project by the author attempts to present a formal model of the relationship between degree of institutional integration and bargaining strength in negotiations with outsiders.

## 2) The EC as a divided bargainer

The paradox of the divided bargainer has a lot of potentially useful applications to the study of the role of the EC as an international actor. Because of its mix of supranationalism and intergovernmentalism, the EC has a cumbersome institutional set-up which forces European negotiators to face a supplementary level of bargaining. Indeed, the conflicting demands of each member state, themselves determined by the conflicting demands of various domestic groups, have to be reconciled before EC negotiators can reach international agreements. How do the EC's specific institutional features affect its bargaining strength in international negotiations?<sup>13</sup>

Degree of integration and degree of unity are used interchangeably in this paper. Thus, the more integrated Europe is, the more united. This does not mean that integration makes the preferences of member states similar, but that there are institutional mechanisms or customs (voting rules, side-payments, etc.) to settle internal divisions and present a unified bargaining position to third countries.

Progress toward deeper integration has traditionally been measured according to various criteria. The convergence of selected economic indicators, such as rate of inflation, productivity, and interest rates, and the extent of intra-regional trade are often used in the economic literature to assess the degree of integration of a region (Nye, 1968). In this paper, however, the progress of integration is defined along institutional lines, following some of the categories proposed by Lindberg (1971). The definition of degree of institutional integration (or "unity") achieved among the member states has several components: the *scope* of power (how many sectors or regulatory powers now fall under the competence of the union), the *competence* (how the competence to shape and make decisions is allocated between the different institutions --mainly, is the Council or the Commission in charge?), the *decisiveness* (how the decisions taken at the supranational level are implemented and enforced?) and the *voting methods* (is unanimity, qualified majority or simple majority required to make decisions?). The variable "degree of integration" roughly corresponds to a scale based on centralization and supranationalism:

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<sup>13</sup>Many argue that its cumbersome decision-making process hinders the EC in negotiations with the US. In the Uruguay Round, the US policy was formulated by several agencies working in coordination, such as the USTR, USDA, State Department, Congress, and representatives from the agricultural sector; then the full authority to negotiate along the lines defined was granted to the Executive. By contrast, "in Brussels, the decision-making process is so complex that it produces inertia" (Artaud, 1993, p. 88). Policy is formulated both by DGI (External Relations), favorable to openness, and DGVI (Agriculture), trying to protect European farmers. Once formulated, policy must be approved by the Council of Ministers, which grants a negotiating mandate to the Commission at every major step of the negotiation. Thus, many argue that the EC would gain in bargaining leverage by being more integrated and having a more coherent policy formulation. Similarly, the EC is institutionally hindered by the intergovernmental nature of its decision-making process and the channels through which decisions are transmitted to the Commission, which condemn in advance the secrecy of official negotiating positions and deprive the EC of a bargaining asset. A further example of the lack of integration is provided by the relative small number of EC officials, which would undoubtedly be higher, were the EC more integrated. Contrary to the claims of the detractors of European integration portraying the EC as an immense bureaucratic monster, the Europeans are handicapped in international negotiations by the size of their negotiating team, which is about one third that of the US (Similarly, the EC is handicapped by the small size of its staff handling trade enquiries. The EC employs 70 investigators to handle an average of 120 cases a year, while the US employs 490 officials for roughly the same workload. Source: Bruce Barnard, "European Community Commission Urges EC to Revamp Trade Probes." *The Journal of Commerce*, Knight-Ridder/Tribune Business News, 5 November 1993.)

the more centralized power is in supranational authorities, or the more federalist the institutional structure of the union, the higher the degree of integration. In order to simplify the analysis, I identified two "ideal" stages of integration: "pure intergovernmentalism", which designates a simple coalition of sovereign states within a loose integrated structure, and "cooperative federalism" (a term borrowed from Emil Kirchner), which designates deeper integration with transfer of many responsibilities at the supranational level and decisions made at the majority.

By all these measures, integration has clearly deepened, in successive stages, since the 1960s. Has deepening integration been accompanied by a parallel increase in EC bargaining strength? Using the divided bargainer analysis, one could suggest that if the EC is "divided" --that is, if one or several member states disagree with the negotiating position of the Commission but divisions cannot be settled automatically-- the US will have to make moves and concessions acceptable to the reticent states in order to avoid deadlock in negotiations. Thus, if the EC can turn some of its institutional handicaps into sources of bargaining leverage, by the same token progress along the integration continuum may result in a fading of this leverage.

### 3) Internal weakness as external strength: a model of EC bargaining

Under which conditions does the intensification of integration become an asset or a liability in international negotiations? This paper argues that the EC external bargaining strength depends on the voting rules and practices at the EC level, the amount of flexibility granted to EC negotiators, and the nature of demands in external negotiations. It also tries to assess which country has the most to gain and the most to lose by negotiating as a single entity when its interests diverge from those of its partners.

Bargaining power is a central, though hard to define, concept in Political Science (Baldwin, 1979). While classical studies left to intuition the task of determining whether "more" or "less" power was observed, many attempts at measuring power have been made since the 1950s, focusing for instance on change in one party directly attributable to the actions of another, and on the costs of potential power. In order to differentiate from the traditional usage, this paper refers instead to bargaining strength, inferred *ex post* from the negotiating process and defined as the difference between what the negotiating parties had set to achieve (preferred outcome) and what they ultimately obtained in the negotiations (final outcome).<sup>14</sup> The smaller the difference, the higher the bargaining strength. Bargaining is assumed to be zero-sum:<sup>15</sup> an increase in the EC's bargaining strength is expected to decrease the US bargaining strength. In this paper, the EC "relative bargaining strength" designates the bargaining strength of the EC vis-à-vis the US.

Whether the integrating region engages in international negotiations to preserve the status quo (for instance, to maintain its agriculture support prices) or to demand

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<sup>14</sup>This definition of bargaining strength has a drawback, since it presents a distorted picture of the actual bargaining strength of a country with limited ambition: according to this definition, the smaller the objectives to be achieved in the negotiation at the outset, the more likely they are to be fulfilled at the end of the negotiation, and therefore the higher the bargaining strength (I thank Walter Matthi for this comment). Nevertheless, this definition has the merit of being operationalizable and seems sufficient to provide an accurate picture of the evolution of power relations in US-EC trade negotiations.

<sup>15</sup>While bargaining strength is zero-sum, negotiations are not envisioned as zero-sum: both parties can gain in the outcomes of the negotiations.

changes in the opponent's policies (for instance, to allow the establishment of foreign banks in the US) affects differently the impact of its institutional structure on its external bargaining strength. This paper, however, addresses only the first situation: how does further movement toward institutional integration affect the integrating region's collective bargaining capabilities in cases when the negotiating opponent's objective is to change the status quo?<sup>16</sup> Based on the two ideal-types of integration discussed earlier --pure intergovernmentalism and cooperative federalism-- I propose the following predictions:

|                     | Pure intergovernmentalism<br>(loose integration) | Cooperative federalism<br>(profound integration) |
|---------------------|--|--|
| Bargaining strength | High<br>"Tied hands"                             | Low<br>"Divide and rule"                         |

In the case when integration is loose, I predict that, contrary to conventional wisdom, the external bargaining strength of the integrating region will be very high. The main reason is that because the union is a divided bargainer which has to reach internal agreements first, it can credibly use the "tied hands" argument. Indeed, if the polity of the union is weak --that is, if no institutional rule exists to mediate the divergent interests of the member states and each state possesses the power of veto-- the terms of the final agreement will be dictated by the most reluctant country. The negotiating opponent has to make moves and concessions acceptable to the most reticent state in order to avoid deadlock in negotiations. Thus, bargaining strength will be high in this case because the unanimity rule means that the policy adopted is the lowest common denominator. Moreover, unanimity results in inflexibility of the negotiating position agreed upon. Once agreed internally, a negotiating position can hardly be changed again during the course of the bargaining. Finally, unanimity enhances the credibility that the offer made is of "take it or leave it" form, since the negotiators have apparently no room to manoeuvre. They are not granted any autonomy, acting only on a "mandate" that they are not allowed to exceed.

In the case where integration has deepened, I predict that the external bargaining strength of the union will not be as high as it was during the period of pure intergovernmentalism. First, when majority is the rule of decision-making, the collective negotiating position will mechanically be less extremist and closer to that of the negotiating adversary, thus giving less negotiating leverage. This also means that the countries with middle positions will benefit from the shift, while the extremist country with the most intransigent views has the most to lose. Moreover, negotiating positions are less rigid because a majority is easier to overcome than a veto; thus, negotiators have more flexibility and can no longer use "tied hands" or "two level" arguments. It becomes easier for the adversary to use a "divide and rule" strategy, that is to reward some member states for their positions or to convince them to soften their position. Finally, when

<sup>16</sup>The "offensive" cases, where the EC makes demands on its negotiating opponents, are discussed in Meunier (in progress).

integration is more profound, it is no longer credible that a defeat in the external negotiations will threaten the future of the union.

Thus, it is likely that the further the EC moves away from intergovernmentalism toward federalism, the larger the size of the EC "win-set" will become, and thus the lesser the impact of "divided government" on the negotiating outcome. Hence, a softening of internal decision-making procedures and an empowerment of the Commission and its negotiators can be expected to have a negative impact on the bargaining strength of the EC in international negotiations. Can this analysis explain the changes in EC bargaining strength between the Kennedy and the Uruguay Round agriculture liberalization negotiations?

### **III- Bargaining strength and outcomes in the Kennedy and Uruguay Rounds**

Agricultural negotiations in the Kennedy and Uruguay Rounds of GATT appear to be a particularly appropriate case for examining the conventional assumption that movement toward further integration would increase the relative bargaining strength of the European Community in negotiations with the United States. Over twenty years, two global economic crises, three enlargements of the European Community, and the end of the Cold War separate the Kennedy Round (1964-1967) from the Uruguay Round (1986-1993). Not many changes, however, have affected the organization of world trade of agricultural products during the same period. In most of the world, agricultural production and trade were still not subject to rules of liberal competition in the mid-1980s, and the variety of non-tariff protectionist measures distorting free trade had indeed increased. Hence the objectives of the Uruguay Round regarding agricultural trade were very similar to those expressed at the opening of the Kennedy Round: to guarantee fair market access and to improve the competitive environment in agriculture.

The two rounds shared many other similarities, especially in the negotiating process. First, they were launched under similar circumstances, with the momentum toward integration acting as a catalyst. Indeed, all four GATT rounds since the creation of the EC in 1957 have been initiated by the United States concomitantly to a distinct stage of European integration. The Dillon Round (1960-1962) aimed at resolving technical problems caused by the creation of the Common External Tariff in the EC; the Kennedy Round (1964-1967) reacted to the early success of European integration, the anticipated enlargement of the EC to Great Britain, and the creation of the Common Agricultural Policy; the Tokyo Round (1973-1979) responded to the enlargement of the EC to Denmark, Ireland, and the United Kingdom; finally, the Uruguay Round (1986-1993) coincided with the relaunching of integration operated by the Single European Act and the project to complete the EC internal market by 1992. Indeed, one strong argument put forth in 1986 for opening the negotiations at this time was that "the GATT Uruguay Round would provide some opportunity for non-European countries to constrain otherwise allegedly protectionist impulses of the Europeans, so as to keep Project 1992 from being too fortress oriented" (Jackson, 1992, p. 344).

Moreover, the Kennedy and Uruguay Rounds both focused on agriculture as a determinant of the negotiations' success. In fact, contrary to the impression conveyed by countless articles and news reports about the Uruguay Round, it was not the first time that agriculture was tackled in a GATT round. Agriculture was introduced as a subject of GATT negotiation in both the Kennedy and Tokyo Rounds by the US, which had fairly ambitious initial goals. Furthermore, the Kennedy and Uruguay Rounds negotiations

followed the same chronology and shared the same protagonists --in both cases the negotiations rapidly turned into a bilateral dispute between the United States and the EC, led by France, the first and second largest agricultural exporters in the world. Finally, the Kennedy and Uruguay negotiations concluded in a similar fashion, with an ultimatum provided by the expiration of the US executive authority to negotiate --the executive authority derived from the Trade Expansion Act in June 1967 and the executive "fast track authority," finally due to expire in December 1993.

This section compares the objectives and outcomes of the agricultural negotiations in the Kennedy and Uruguay Rounds in order to assess the evolution of the relative bargaining strength of the EC. For both rounds, I state the initial demands of each party at the outset of the negotiations, determine their real objectives, present the actual negotiation outcomes, and offer an assessment of bargaining strength. What does this confrontation of expectations and reality suggest about the traditional view that unity brings strength?

### 1) Bargaining strength and outcomes in the Kennedy Round

In brief, the Kennedy Round ended far from satisfying the American objectives. As a consequence of the failure of the EC and the US to reach an agreement, the Common Market was left free to maintain its support prices at a very high level, which eventually gave rise to enormous surpluses exported thanks to subsidies.

*Initial demands:* The Kennedy administration had very high expectations at the beginning of the round, mainly to curtail a potentially heavily protectionist CAP and to get fair access for US agricultural exports in Europe. Therefore, the US initially pressed for a liberalization of trade in agriculture similar to trade in industrial goods, that is, cuts in tariff and non-tariff protection of 50 percent.<sup>17</sup> The US also demanded the increase of the floor price of wheat under the International Wheat Agreement. Finally, the US proposed that importers of cereals be asked to contribute to a 10 million tons foodgrain pool for food aid.

At the time of the Kennedy Round, agricultural products represented 40 percent of US exports to the EC. It was therefore vital to ensure that American producers would not suffer from discriminatory measures resulting from the integration of the agricultural sector in Europe. Hence, the US negotiators insisted that the Kennedy Round would be a success only if liberalization applied to agricultural products.<sup>18</sup> Indeed, the US set the rules of the game and, at the outset, selected agriculture as the key issue by which to

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<sup>17</sup>See Herter: "The vital importance of the inclusion of agriculture in the Sixth Round has been emphasized by the United States from the outset. The United States has repeatedly insisted that the objective of the agricultural negotiations should be trade liberalization equal to that achieved in the non-agricultural sector, meaning 50% tariff cuts where tariffs provide the effective protection, and, where other forms of protection are employed, such as variable levies, liberalization equivalent to a 50% cut in fixed tariffs." (Hearings, 1966, p. 25).

<sup>18</sup>Christian Herter, US Special Trade Representative, quoted in *The Journal of Commerce*, 15 May 1963: "The participants in the Kennedy Round have laid down as their object the liberalization of trade because it is seen to be to their advantage. But such liberalization cannot be achieved in any field unless it applies as much to agricultural products as to industrial products. With agricultural exports to the EEC running at the rate of \$1.6 billion per annum, the USA would find it difficult to estimate what tariff reductions on industrial products that interest the Community it could reasonably offer if significant offers were not forthcoming from the EEC in the agricultural field."

judge the success of the round, as opposed to industrial goods (the US would eventually achieve positive outcomes in the industrial sector). Why, then, as Shonfield asked,

had the Americans decided to make this essentially secondary, and exceptionally difficult, matter the key issue in the biggest multilateral tariff negotiation ever undertaken? The answer which suggested itself was that they had come to the conclusion that they now had a decisive competitive edge in agricultural trade and were determined to exploit it in full. (Shonfield, 1976, p. 33)

Meanwhile, initial EC demands were clear. The EC officially agreed to the inclusion of agriculture in the negotiations, but insisted *sine qua non* that its own agricultural policy be set and completed before any international accord on agricultural exports could be reached. Moreover, the EC found the 50 percent rule proposed by the US unacceptable for agriculture. Instead, it introduced a rule tailored to the developing CAP, which would allow for a temporary freeze of EC common support prices and would enable the variable levy system to continue unchanged. In its initial claims, the EC proposed first to measure the extent of protection given by various means to producers in each country. In 1964 the EC presented the controversial Mansholt plan, which offered to bind for three years these degrees of protection (or "margins of support") against increase, as it would be done with a tariff, on a reciprocity basis, and proposed specific levels for unified grain prices.

***Real objectives:*** The first encounter of the US with the CAP, over the issue of poultry exports, occurred during the preliminary negotiations for the Kennedy Round (Talbot, 1978. See also J. Evans, 1971; Conybeare, 1987). The 1963 "Chicken War" reinforced the determination of the United States to prevent a potential disruption of world trade in agriculture caused by newly or soon-to-be enacted rules in the Common Market. The US had other motivations as well for limiting the anticipated negative effects of the CAP. First, farm exports were expected to reverse the deterioration of the US balance of payments since, according to T. K. Warley (1976, p. 320):

there was a spreading awareness that agriculture was one of the few industries in which the United States had an unassailable economic advantage and in which it could meet foreign competition head to head and win.[...] Thus, progressively over the course of the 1960s, agriculture gradually moved in official thinking from being an expensive problem to the status of a glamour industry, capable, were it not for the policies of others, of meeting a trinity of priority policy objectives and delivering a huge prize to the American economy.

Second, President Kennedy needed to curb the protectionist tendencies of the CAP because of a deal struck with Congress, which agreed to support the 1962 Trade Expansion Act in return for the promise that US agricultural exports would be facilitated.<sup>19</sup> Finally, the US believed that Great Britain would join the EC. Since it was the world's largest agricultural importer, the US became worried at the prospect that Britain may adopt the CAP.

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<sup>19</sup>According to Warley, congressional support could be obtained only "if the negotiations manifestly held out some promise to the farm lobbies that opportunities for their agricultural exports to the European market would be improved by rolling back the protectionist tendencies evidenced in the CAP." (Warley, 1976, p. 378)



Therefore, the US abandoned its traditionally protectionist agricultural policy<sup>20</sup> and decided to use the Kennedy Round to confront the EC on its proposed CAP. The main US objective was to make sure that GATT rules would apply equally to industrial and agricultural products, and in particular that agricultural production and trade would be determined by comparative advantage and market mechanisms. Specifically, the US wanted the abandonment of the EC variable levy system and a set reduction in agricultural trade barriers, including the reduction of tariffs in Germany and Benelux countries to the pre-EC levels. The real US objectives were very close to the initial US demands for the 50 percent rule in the early phases of the Kennedy Round. The secondary US objective was an international agreement on unified grain prices (International Grain Agreement), which would increase the floor price of wheat and thus benefit US grains exporters. The third objective, a food aid commitment, was designed to prevent agricultural surpluses from pressing on commercial markets.

The EC real objectives are harder to determine since they were not completely set at the beginning of the round, given the evolving nature of the EC agricultural arrangement. Conflicts of interests among member states (especially France and Germany) rendered the agreement on a common negotiating position difficult to reach. Germany, a high cost agricultural producer, wanted the eventual European unified grains price to be sufficiently high to maintain the competitiveness of German farmers. On the other hand France, the most efficient farm producer in the EC, wanted unified grains prices sufficiently low for France to dominate cereal production in the EC, as well as external protection to shield European producers from outside competition.

Nevertheless, member states could easily agree on one central feature of agricultural policy: agriculture is not a sector like the others. As T. K. Warley reports, "the EEC's posture in the Kennedy Round was liberal in all areas but agriculture. Its common external tariff was lower on average than most; it had offered to reduce it in the Dillon Round by more than the US negotiators could match; and [...] the Community was perfectly willing to negotiate on the basis of a 50 percent linear reduction of tariffs on manufactures. However, it took the view that agriculture was different by reason of the universal involvement of governments in agricultural policies and the consequent distortions in world markets which resulted from the interactions of national support policies." Henceforth, the central objective of the Common Market countries in the Kennedy Round was to prevent negotiations with the US from hindering the formation of the CAP, whose rules were created as the multilateral negotiations progressed. The EC agreed to discuss the regulation of world agricultural trade, but its real objectives were to obtain the less change possible --i.e. no damage to the CAP, low tariff cuts, and low food aid commitment.

*Negotiation outcomes:* In the non-grain agricultural sector, the Europeans made ultimately few concessions (Preeg, 1970). Tariff reductions of 20 percent on average were mutually obtained by the US and the EC on only a few items (other than cereals, meat and dairy products). Faced with a relative defeat in the non-grain negotiations, the American administration reported its hopes on the International Grain Agreement instead, only once again to be resisted by the EC. The US finally accepted a less than favorable agreement. The negotiations to provide access to markets protected by a self-sufficiency

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<sup>20</sup>Until 1952, far from playing a trade liberalizing leadership in agricultural matters, the US was seeking ways of protecting its agriculture through means such as import restrictions, disposal of surplus stocks, use of export subsidies, and a formal waiver from GATT obligations. Indeed, since the 1933 Agricultural Adjustment Act (AAA) the US was pursuing protectionist domestic agricultural policy.

ratio commitment (mainly the EC) were unsuccessful. The deadlock in the sector of cereals was finally broken when the US agreed to drop its demands for access guarantees in exchange for the EC to abandon its margin of support plan. As a consequence, a comprehensive approach to an international grains arrangement was ultimately abandoned. The only accord to be reached was on a joint food aid commitment and minimum wheat prices. In sum, the final outcomes were quite fruitless relative to the original expectations of the United States. While a small agreement was reached in the grains negotiations, the broader issue of market access and accommodation of the practices of the Common Agricultural Policy remained unresolved.

*Bargaining strength in the Kennedy Round:* It would not be fair to say that the US "lost" the Kennedy Round, for it gained important trading benefits in several sectors and its overall exports grew as a result of the final agreement. But the US clearly was the loser in the agricultural negotiations, having achieved none of its initial objectives. Therefore, "in the economic folklore of the United States in the late 1960s and early 1970s, the Kennedy Round was firmly established as a failure" (Shonfield, 1976, p. 26). By contrast, the final outcomes satisfied the European Community and established its reputation as a strong bargainer.

Overall, the final outcome of the negotiations in the grains sector was rather negative compared to the original expectations of the US on three fronts: the price levels agreed upon were too high to advantage US farmers; US farm exports were not guaranteed access to EC markets; and the commitment in food aid to developing countries was far below the initial target. When not complaining about the "modest success"<sup>21</sup> of the negotiation on agriculture, US officials confessed that the American expectations had not been met.<sup>22</sup> Nevertheless, despite the disappointment in agriculture negotiations, the American administration endorsed the Kennedy Round agreement, partly because the overall tariff reductions on industrial goods were impressive and advantageous for US exporters, partly to prevent the likely resurgence of protectionism at home if the negotiations were to fail. The final Kennedy Round agreement spurred many criticisms in the United States, mainly in the agricultural sector where, at best, the results were judged moderate. Others were less forgiving about the deal finally struck in Geneva, such as Congressman Odin Langen (R-Minn) who, on behalf of the House Republican Task Force on Agriculture, called the Kennedy Round a "failure" and complained that the US farmers had been "sold out" by the US negotiators (Zeiler, 1992, p. 240).

By opposition, the Common Market concluded the agricultural negotiations triumphantly. Against most expectations, the EC had proven its ability to resist effectively US demands for market access and even to dictate the terms of the final agreement. The initial goal of the EC in the Kennedy Round --to ensure that the Americans accepted in principle to let "agricultural trade accommodate itself to the CAP and not the converse"-- was reached (Krause, 1968, p. 214). This led an historian to conclude that, in short, "the Europeans enjoyed more decisive leverage at international trade negotiations than ever before" (Zeiler, 1992, p. 2). Such a statement should not surprise those who assume that European integration automatically improves the EC's bargaining strength in international negotiations.

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<sup>21</sup>John Schnittker, Undersecretary of Agriculture (in Zeiler, 1992, p. 239).

<sup>22</sup>Worthington: "I am afraid you have to come to the conclusion that certainly we cannot hope to get out of this negotiation in agriculture what we hoped we would get when we went into it. We did have high hopes that the massive bargaining authorities which the Congress gave us would enable us to deal successfully with the developing variable levy systems of the European Economic Community." (Hearings, 1966, p. 66)

## 2) Bargaining strength and outcomes in the Uruguay Round

The unsolved issues concerning the liberalization of world agricultural trade were addressed again in the Uruguay Round. By contrast to the Kennedy negotiations, some degree of liberalization was achieved at the end of the Uruguay Round, when a set reduction of subsidies was finally approved by all negotiating parties.

*Initial demands:* In response to the growing trade deficit and the severe farm crisis experienced in the US in the mid-1980s, the US desired a comprehensive, long-term reform of the Common Agricultural Policy. Therefore, in preparatory meetings for the Uruguay Round, the US insisted that agricultural liberalization, once again, be put at the center of the multilateral trade negotiations. In the first US negotiating proposal presented in July 1987, the Reagan administration demanded the complete elimination of all subsidies in agriculture by the year 2000 --a negotiating position called "complete phase-out" or also the "zero option" by analogy to ongoing arms control negotiations (Paarlberg, 1993). This extremist US plan called for the elimination over a ten-year period of all agricultural subsidies that directly or indirectly distort trade and of all import barriers. However, the plan authorized farm policies providing payments to farmers without affecting pricing or production decisions (called "decoupled payments") and *bona fide* foreign and domestic food aid. Finally, it called for the harmonization of world health and sanitary regulations to prevent their usage as non-tariff barriers.

The EC agreed that world trade in agriculture was problematic and that support was costly, but it hoped to replicate the scenario of the Kennedy Round: to get agricultural reform on its own terms and to receive confirmation that the CAP would be allowed to continue. Above all, the EC was ready to accept only short-term measures to deal with the agricultural crisis. The official position of the EC was, first, to make sure that the fundamental principles of the CAP would not be questioned or jeopardized.<sup>23</sup> Therefore, the EC insisted at the outset of the Uruguay Round that under no circumstance could the negotiations impair the CAP and that the dual price system of the CAP was not negotiable.<sup>24</sup>

The second official objective of the EC was to reform the rules governing world agricultural trade, but refuse the narrow focus on the elimination of farm export subsidies. Instead, the EC proposed to negotiate on every form of aid to agriculture, including the type of agricultural support favored by the United States. With respect to this second objective, the EC won a first victory at the inaugural Punta del Este meeting in September 1986 when, after hard bargaining with the US and the Cairns group, it ensured that the Official Declaration on Agriculture committed the participants to increase "discipline on the use of all direct and indirect subsidies and other measures affecting directly or indirectly agriculture trade, including the phased reduction of their negative effects and dealing with their causes." This formulation, which did not include a firm deadline for the removal of subsidies and did not address directly the issue of export subsidies or the CAP, was much broader and more general than an initial draft which the EC refused to endorse and indeed very close to the original EC proposal. The EC reiterated the same

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<sup>23</sup>At the inaugural Punta del Este conference, Willy de Clercq, External Affairs commissioner, declared that "the Community naturally intends to ensure that the negotiations do not place in question the fundamental aims and mechanisms of its own agricultural policy." Quoted in "GATT Ministers Begin Efforts to Launch Eight Round of Multilateral Trade Talks," *International Trade Reporter* (Vol. 3, No. 37, September 17, 1986).

<sup>24</sup>One price for domestically produced goods and one price for imported goods.

demands for short-term measures, non-negotiability of the CAP, and reduction of all forms of support in the initial negotiating proposal presented to the GATT Negotiating Group on Agriculture in October 1987.

*Real objectives:* The US wanted to get rid of the CAP because the US-EC "subsidy war" was becoming too expensive. Between 1981 and 1986, US agricultural exports declined in both volume and value. The EC, by contrast, was performing well, largely because of the CAP's export subsidy program. In retaliation, the United States Department of Agriculture (USDA) established in May 1985 the Export Enhancement Program (EEP), which distributed government subsidies to US exporters (Libby, 1992). Simultaneously, Congress passed the Food Security Act, which provided for lower loan rates to US agricultural exporters. As a result, the EC increased its "restitution payments" (compensation) to European producers, with the effect of raising the cost of EC support. In 1986, US and EC domestic agricultural support programs were estimated at about \$25 billion each. Also, for the first time in 1986, the EC temporarily surpassed the US as the world's largest agricultural exporter (even though at the same time it remained the world's largest importer of agricultural products).

The real objective of the United States in the Uruguay Round was thus to obtain the maximal reduction of subsidies in the EC. Therefore, even if the initial American position was a demand for the complete elimination of all agricultural subsidies, any reduction in the subsidization of European agriculture would be counted as a victory for the US. This is confirmed through evidence gathered in interviews and work documents.<sup>25</sup> Even the 1990 US proposal on agricultural support, sources suggest, was still way higher than the real US hopes. It called for reductions of 75% over a ten year period for the most trade-distorting internal support measures and 30% for the others; proposed the "tariffication" of all nontariff import barriers, the binding of existing tariffs, and the reduction by 75% on average over ten years of these converted and bound tariffs; and finally suggested a reduction of 90% over ten years of export subsidies on primary agricultural products.

The EC's real objectives during the Uruguay Round are more complicated to discern, mainly because of the divergent, if not antagonistic, interests of the member states. The twelve countries comprising the Community were deeply divided between agricultural and non-agricultural producers on the position to adopt toward agricultural reform. The United Kingdom, supported by the Netherlands and Denmark, hoped that the multilateral negotiations would result in the liberalization of world agricultural trade, in a reduction of their contribution to EC agricultural subsidies that benefited France the most, and in trade-offs across other sectors. Indeed, many in Europe (even in France) argued that the EC should take the opportunity provided by the Uruguay Round to actually reform the CAP, which could not survive any longer in its current form.<sup>26</sup> There is much evidence, actually, that the EC Commission was inclined to obtain an international arrangement, or "external push," that would enable the EC to slow down the increasing

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<sup>25</sup>Personal interviews at USDA and USTR.

<sup>26</sup>See for instance "The Siena Memorandum on the Reform of the Common Agricultural Policy," reported in Gary Clyde Hufbauer and Jacqueline Mazza, *The International Spectator* (Vol. 21, No. 1, Jan-March 1986) pp. 17-18: "It is apparent that the CAP is failing to achieve the objectives set for it in the Treaty of Rome; nor can it any longer be said to be contributing to European integration. The CAP which was created as a cornerstone of the Community, has become a stumbling block."

costs of the CAP.<sup>27</sup> This is why to many European policymakers, the 1992 Blair House accord appeared as an unexpected European victory that the EC ought to accept before the agreement could be questioned by the US (Artaud, 1993, p. 84).

Nevertheless, the EC member states agreed on two central objectives to achieve in the GATT negotiations. First, in order to stop the costly subsidy war with the US,<sup>28</sup> the Europeans would reduce internal support by 30% in 10 years, but by taking 1986 as a reference year, since the EC initiated a voluntary "stabilization" of internal support at this time. Thus, the EC was ready to concede on the issue of domestic support, but neither on market access nor on export subsidies. Second, the EC wanted to obtain a "rebalancing" of external protection, that is, to decrease protection on heavily protected products and increase it on duty-free products, such as oilseeds and cereal substitutes. Were these two objectives not reached, the EC's reservation outcome was to lower the costs of the CAP without disrupting the social fabric of Europe.

*Negotiation outcomes:* The broad objective of starting to liberalize world trade in agriculture was met, to a certain extent, at the end of the round. After seven years of confrontation, skirmishes, and stalemate, the US-EC agricultural dispute was eventually resolved within the GATT framework in December 1993. The final agreement on agriculture addressed the four main issues of contention. In the domain of market access, the negotiators agreed to convert all non-tariff measures into tariffs, and then to bind and eventually reduce tariffs. Export subsidies, which were the central object of dispute between the US and the EC, will be reduced by 21 percent in quantity and by 36 percent in budget by the end of a six-year implementation period. The amount of internal support provided to agricultural producers in developed countries will be reduced by 20 percent by the year 2000. Finally, the agreement tightens the discipline on health standards which restrict imports and encourages the use of international standards.

*Bargaining strength in the Uruguay Round:* Overall, the agricultural negotiations in the Uruguay Round were clearly a success for the US, which could justifiably brag about having achieved its most important negotiating objectives.<sup>29</sup> The multilateral cuts in exports subsidies, finally accepted by the EC after years of foot-dragging, are expected to greatly benefit the more efficient and less subsidized US producers, with the opening of new markets artificially protected until now. By contrast, it was harder for the EC to claim victory at the end of the Uruguay Round. The US granted some concessions to the EC in the very last stage of the negotiations, notably on details of the Blair House agreement. As a result the Europeans, and especially the French, were able to go back to their public opinions with cries of victory. When compared to its initial demands and preferred outcomes in the early stage of the round, however, the final agreement did not

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<sup>27</sup>From interviews. See also: "The total cost of agricultural protection to consumers and taxpayers in the OECD countries now amounts to about \$140 billion annually. The European Community accounts for 40 percent of this total; Japan for 24%; and the US, 22 percent. The costs have almost doubled since 1978-80.[...] They increased by about 30% in the EC, because support prices were generally maintained in the face of falling world prices, and because 50% more had to be spent on surplus disposal. Yet only about 40 to 70 percent of the costs of price support actually benefits farmers; most of the remainder represents a dead loss to the economy." (Leddy and Reinstein, 1987, p. 46)

<sup>28</sup>In the 1980s, the CAP accounted for about 60% of the total EC budget.

<sup>29</sup>"The United States substantially achieved its most important negotiating objectives.[...] In agriculture, the agreement extends GATT disciplines to agricultural products for the first time: Subsidies are to be lowered over time, markets opened, and nontariff barriers converted to tariffs." (US General Accounting Office, 1994)

conform to the high bargaining strength originally expected from the EC. At best had the final agreement modified and improved some details of the 1991 "Dunkel Draft." Although it could be argued that the final outcomes were close to the preferred outcomes of some individual member states, this paper considers for reasons of simplification that the general EC position, the one revealed by the conflictual stand-off between the EC and the US over the renegotiation of the Blair House agreement, was to stand up to the United States and not make any more concessions once the reform of the CAP had been passed in May 1992.<sup>30</sup>

When the EC relative bargaining strength vis-à-vis the US in the Kennedy and Uruguay Rounds is compared, the observations do not seem to match the expectations derived from the traditional rhetorical claim about unity and strength. On the contrary, the correlation between degree of integration and bargaining strength seems inverted relative to the predictions offered by the conventional wisdom. The united Europe demonstrated impressive bargaining leverage during the Kennedy Round, more than what its low degree of integration would have led to believe. In the Uruguay Round, by contrast, the more deeply integrated EC fulfilled its initial objectives only partly and after seven years of holding out to the American adversary in the negotiations, finally conceded on important agricultural issues. In other words, the continuing movement toward institutional integration in Europe not been accompanied by an increase in the European ability to resist American demands for liberalization and shape the international trading regulatory system. Can the divided bargainer theory explain this "paradox of unity"? (Meunier, in progress)

#### IV- The bargaining process: Institutional weakness as unexpected leverage

The evolution of EC negotiating strength between the Kennedy and Uruguay Rounds does not conform to the expectations derived from the belief that bargaining strength and institutional unity are positively correlated. This paradoxical finding, however, is overdetermined. One explanation for the paradox may be that although in theory the continuing movement toward integration has the effect of increasing the EC bargaining strength, other variables interfered in this relationship, with the reverse effect of reducing the impact of further integration. Indeed, trade negotiations between the United States and the European Community have not taken place in a *ceteris paribus* world. Even if the processes of US-EC negotiations look very similar, several influential factors changed around them during the period considered. Transformations in the international system and security environment, in the domestic characteristics of the US and the EC, and in the nature of issues discussed in negotiations may have channeled the European bargaining leverage in a direction contrary to the one expected, were institutional integration in Europe the only independent variable.<sup>31</sup> Moreover, the GATT negotiations themselves now take place in a different environment, where more member countries provide more strategic alliance options, more sectors discussed provide more linkage opportunities, and more regional arrangements increase the potential for "outside options" and the credibility of failure of the multilateral negotiations (de Melo and Panagariya, 1993; Messerlin, 1993).

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<sup>30</sup>The internal quarrels in the EC over agricultural liberalization and the Uruguay Round negotiations will be discussed in the following section of this paper.

<sup>31</sup>A discussion of these different explanatory variables is provided in Meunier (in progress).

These "countervailing" variables do provide part of the explanation for the paradox observed. Nevertheless, since these variables are idiosyncratic and some of them changed in opposite directions several times during the period considered, they cannot offer a clear picture of the bargaining process between the US and the EC, nor can they precisely predict the outcomes of the negotiations. Moreover, variables such as the international security environment and the political choices of US administrations do not respond directly to the conventional wisdom because they are not derived from the integration process. Instead, this section proposes to recount the bargaining process in the Kennedy and Uruguay Rounds by focusing on the successive institutional features of the EC and their consequences on the negotiations.

The Kennedy and Uruguay Rounds took place at two distinct phases in the development of the European Community. The Kennedy Round was the first major test of the EC as a single entity on the international scene.<sup>32</sup> The Uruguay Round, by contrast, started as the Europeans committed to a deepening of the EC and had apparently accepted a greater role played by supranational institutions. In both rounds, internal developments in the European Community constantly interacted, and at times interfered, with the process of US-EC negotiations in GATT.<sup>33</sup> The 1965-66 "empty chair crisis" in the EC is perhaps the most vivid illustration of the detrimental effect of internal EC preoccupations on the progress of GATT negotiations. Similarly, US-EC negotiations on exports subsidies and market access in agriculture in the Uruguay Round stalled for almost a year in 1990-91, a stalemate that many observers attributed to the "foot dragging" of the EC more preoccupied with the 1992 program, the European Economic Area, German unification, and changes in Eastern Europe than with advances in multilateral liberalization.<sup>34</sup> How did the evolution of EC institutions and decision-making procedures affect the European bargaining strength in agricultural negotiations with the US in the Kennedy and Uruguay Rounds? Can the differences in levels of unity in the EC explain the differences observed in EC bargaining strength in these two negotiations?

### 1) The negotiating process in the Kennedy Round

The bargaining process in the Kennedy Round was characterized by numerous instances in which the US administration gave way to a weak and incapacitated Common Market. On several occasions the EC used its incomplete transition from national to collective policies as an excuse for not making progress in the negotiations. Given the inflexibility of the European position and the tied hands of the EC negotiators, the US was forced to accept agreements it disliked, for fear of being left with no agreement at all.

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<sup>32</sup>The 1960-1962 Dillon Round of GATT dealt in its first phase ("XXIV-VI") only with technicalities, and in its second phase paved the way for the upcoming Kennedy negotiations.

<sup>33</sup>When not enabling multilateral talks to go forward, the specifics of European integration have been influenced by progress in GATT. For instance, the work of the Spaak Committee, which formed the basis of the Treaty of Rome, was affected by the earlier rounds of GATT. (see Murphy, 1990). Similarly, the removal of internal tariff barriers to trade within the EC was accelerated by progress in US-EC industrial tariff liberalization in the Kennedy Round. Moreover the issues of technical standards harmonization and public procurement have been tackled simultaneously in the EC and the Uruguay Round.

<sup>34</sup>"The analysts feared that the EC might concentrate more on the inward focus of single market integration than on the Uruguay Round, with its external, outward focus. In addition, the Uruguay Round trade talks were scheduled to end in December 1990, two years before the December 31, 1992 deadline for completion of the EC internal market. This disparity in time served only to heighten worries that EC interest in the Round might concern people less than liberalization." (United States International Trade Commission, 1993, p. 159)

This unusual bargaining process resulted in the final Kennedy Round agreement, held as an American failure.

### *Internal developments of the Common Agricultural Policy*

Since the outset of the Kennedy Round, the EC made clear that it would make no agricultural offers until its own internal system of protection and common agricultural policies were completed. As a result of its unfinished CAP, the EC by and large determined the agenda, and consequently, the outcomes of the Kennedy Round negotiations on agriculture. The preparatory negotiations for the Kennedy Round started as the EC had not yet put in place the Common Agricultural policy or even agreed on its main principles. The variable levy system, so much criticized by the American administration, was agreed to in 1961. The proposal on the "margin of support" was first presented in February 1964. The first internal EC agreement on grain prices was achieved only in December 1964, as the Kennedy Round was already officially under way. Finally, it was not until July 1966 that the support system for dairy products, beef, sugar, fruits and vegetables was decided (Warley, 1976, p. 388). As a result of the CAP not being put in place before the last months of the Kennedy Round, the US was left in a singular bargaining position, having to wait for the European farm policy to be implemented before negotiations with the goal of altering this policy could begin.

### *The Franco-German dispute*

The main reason why the CAP was so fastidious to put in place and the EC so long in reaching a common bargaining position on agriculture in the Kennedy Round was the central disagreement on cereal prices between France and Germany. At the time, France was the largest and most efficient agricultural producer in the EC. Therefore, it demanded, on one hand, unified prices of grains sufficiently low to maintain the comparative advantage of French agriculture, and on the other hand, the collective financing of export subsidies. Germany, by contrast, had a highly protected, non competitive agriculture. Were the French proposal adopted, Germany would have to make the largest downwards price adjustment and would have to contribute heavily to the financing of subsidy benefiting French farmers. Nevertheless, there seemed to be an understated deal between France and Germany on the division of the industrial and agricultural spoils from European integration.

After France vetoed the entry of Great Britain into the Community in January 1963 and strains arose between France and Germany on nuclear issues, however, Germany became less inclined to make commitments on agriculture that would primarily benefit France (Preeg, 1970, p. 72). In December 1963, Germany rejected the Commission proposal on unified price levels for grains, thereby creating a major stalemate in the EC and in GATT. According to the internal EC decision-making rules, no common bargaining position could be presented in the GATT negotiations until all member states approved it. The main dispute between France and Germany over the issue of unified grain prices and financing of the subsidy system was finally resolved in December 1964, but the internal divisions in the EC had a direct impact on the GATT negotiations. Thanks to the stalemate, the EC achieved one of its initial objectives in the negotiations, which was to delay the link between the submission of offers in the industrial and the agricultural sectors.

The EC proposal on agriculture, often referred to as the Mansholt Plan, was based on the principle of "*montants de soutien*" (margins of support): after a comprehensive calculation of all forms of government subsidy and protection in agriculture, the US and



the EC would negotiate the reduction of margins of support, which were the difference between the price of products on the international market and the price received by domestic producers. Importers would be allowed to assess an additional levy if export prices were lower than a negotiated reference price. This proposal focused the debate specifically on the trade distorting effects of government intervention and placed limits for the first time on domestic agricultural policies. The plan also promised an end to export subsidy wars. For the EC, the "margin of support" proposal represented a real concession, and had been difficult to be agreed upon internally. But the US rejected the proposal because it represented a special code for agricultural products --and the US wanted the application of the GATT rules to every sector, including agriculture. On the contrary, the proposal was eliminating price as a mechanism for determining production and trade patterns. In rejecting this proposal, however, the US administration had apparently not measured the extent to which it was difficult for the EC to reach a common bargaining position --and its inflexibility once it was reached.

### *The "empty chair" crisis*

The difficulties encountered by the US in facing a weakly integrated negotiating opponent are epitomized by the "empty chair crisis," which combines elements of agricultural policy, institutional difficulties and international negotiations (Zeiler, 1992, p. 221). In early 1965 France obtained from the Commission a draft proposal for agricultural export subsidies to be paid by a fund contributed to by all Member States. In exchange for this subsidy plan, whose main beneficiary would be French farmers, the Commission also included in the program a clause to implement greater supranational decision-making in the EC. The Commission hoped that, in exchange for the collective financing of export subsidies, France would accept the participation of the European Parliament in determining the EC budget and the replacement of unanimity by majority voting in the Council of Ministers by 1967. Rather than abdicating France's veto power and delegating more authority to the supranational institutions, however, French President General de Gaulle preferred to boycott the EC altogether. Since full membership was required on voting matters, the French boycott led to a suspension of all EC operations from June 30, 1965 until May 1966, when the crisis was finally resolved by the so-called "Luxembourg Compromise" which authorized Member States to keep a veto power on matters of vital importance to them.

This blockage of EC institutions had a direct impact on the Kennedy Round negotiations, since the internal EC crisis started as the Europeans were expected to present their agricultural offers to their GATT negotiating partners. The agricultural talks in GATT were in effect shut down, as one of the main participants was unable to reach a negotiating position. Faced with the severe institutional crisis in the EC and with undesirable EC agricultural offers when the negotiations resumed in September 1966, the US finally came to the conclusion that any solution representing small progress in the farm sector was better than no solution at all.<sup>35</sup> Given the institutional weaknesses of its opponent, the US had few options available but to make concessions and, ultimately, accept the lowest-common-denominator EC position by fear of obtaining nothing otherwise. Thus, the US retreated on the issue of food access guarantees. Moreover it decided not to wait for an accord on cereals within the Common Market to proceed with agricultural negotiations. Finally, the US allowed the *decouplage* of industrial and agricultural negotiations, which it had until then firmly refused to do. These concessions

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<sup>35</sup>From archival research in various US documents on the Kennedy Round negotiations, John F. Kennedy Library, Boston, MA. See also Zeiler (1992, p. 183).

resulted in the signing of a final agreement that was not making the intended changes in agricultural trade --and thus was interpreted as a victory for the Europeans.

### *Negotiators with tied hands*

The story of the "empty chair" crisis and, more generally, of the Kennedy Round negotiations suggests that partial integration can be used as bargaining asset in certain conditions. The explanation of the surprising EC bargaining leverage in the Kennedy Round may be found in the lack of latitude granted to EC negotiators. When asked why they failed to reach a more favorable agricultural agreement in the Kennedy Round, American policymakers often contended that the transitional stage of European integration prevented effective negotiations. George Ball, for instance, declared that "the reason for the disappointments in bargaining [...] result primarily from the difficulties the Six have had in trying to put their individual agricultural policies together" (Hearings, 1966, p. 6). Similarly Christian Herter, the US Special Trade Representative, asserted that "the lack of progress in the Kennedy Round goes right back to the fact that the largest trading partner in the world, the Common Market, has taken so long to develop a comprehensive negotiating position.[...] Until the Common Market could adjust itself and get a trading position, there was no way of negotiating" (Hearings, 1966, p. 44).

One major innovation of the Treaty of Rome was the creation of a Community with external personality.<sup>36</sup> In particular, the EC took over negotiating functions from the member states in international trade negotiations. Under Article 111, decisions on bargaining positions were to be taken by the Council of Ministers under the unanimity rule until January 1966, end of the transitory period. Had France not obtained the Luxembourg Compromise ending the "empty chair" crisis, qualified majority voting would have been automatically instituted after this date. While the mandate to negotiate was agreed by unanimously by the representatives of the member states, the actual negotiations were carried by members of the Commission on behalf of the EC.<sup>37</sup> This procedure led to awkward situations where the EC negotiators were powerless to make any compromise or counterproposal until they received a new negotiating mandate, agreed to once again by unanimity, from the Council.<sup>38</sup>

As a result of the desire of Member States (especially France) to keep a complete check on the progress of the GATT talks, EC negotiators had their "hands tied" and the EC bargaining position was quite rigid. As stated by Warley, "the Kennedy Round agricultural negotiations were in fact bedevilled by the limited authority of the negotiators. [...] The Commission had constantly to return to Brussels for instructions and was, for most of the time, a carrier of messages from the Council of Ministers" (Warley, 1976, p. 389). Throughout the Round, American negotiators kept complaining about the hurdles created by the EC internal arrangements.<sup>39</sup> Indeed, this inflexibility of the EC position had important consequences on the bargaining process with the United States,

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<sup>36</sup>The 1952 European Coal and Steel Community did not have external powers.

<sup>37</sup>The Belgian Jean Rey, later President of the EC Commission, was the chief EC negotiator in the Kennedy Round.

<sup>38</sup>Representatives of the Member States were present during the negotiations in Geneva, but they were not allowed to negotiate directly.

<sup>39</sup>Archival material on the Kennedy Round at the J. F. Kennedy Library shows that US negotiators were extremely preoccupied with internal EC decision-making procedures and tried to influence some EC member states to soften and majoritize the procedures.

which had to make sensible proposals and counteroffers with a high chance of being accepted by the EC member states.

The inflexibility of the EC negotiating position also came from the fear of endangering the fragile Community structure. Each internal decision (grain prices, exports subsidies, etc.) had been so painful and difficult that the member states felt that what had been agreed to became a binding commitment. They worried that any type of pressure for renegotiating these commitments, and particularly outside pressure, would disturb the fragile balance arduously achieved in the Community and jeopardize the chances of future internal compromises. Therefore, "once an accord had been reached in the Council it was too fragile to permit significant changes in the Geneva negotiations" (Warley, 1976, p. 388). In consequence, the EC adopted a very defensive bargaining attitude in the agricultural negotiations with the US and derived some leverage out of its inflexibility.

## 2) The negotiating process in the Uruguay Round

During the years separating the Kennedy from the Uruguay Round, European integration consolidated, both through widening (six new member states joined) and deepening of policies. In particular, the CAP and its system of subsidies established during the Kennedy negotiations became the most comprehensive policy at the supranational level. The bargaining process in the Uruguay Round was characterized by a greater autonomy taken by EC negotiators, until the 1992 Blair House compromise, and by a subsequent institutional crisis, as France denounced the damage to EC bargaining strength done by the "free hands" left to the agents of the supranational institutions.

### *Reaching a common EC bargaining position*

The addition of new member states, especially Great Britain and Denmark in 1973, increased the divergence of agricultural trade interests within the EC and rendered even more difficult the task of reaching a common bargaining position for the GATT talks. At the start of the Uruguay Round, German agricultural interests diverged from the French.<sup>40</sup> Because German agriculture is mainly characterized by small exploitations, which do not produce for export markets, Germany supported a drastic reduction of costly export subsidies but rejected cuts in internal price support. The French agricultural situation is diametrically opposed. France, thus, firmly opposed reductions in export subsidies, since it is the second largest exporter of agricultural products in the world and produces most of the surplus in the EC, but it agreed to some domestic price cuts. To overcome these divergent interests, France and Germany formed a costly strategic alliance, which survived through the seven year negotiation, according to which each country supported the demands of the other.

Other member states disagreed with the Franco-German demands. Great Britain, supported mainly by the Netherlands and Denmark, was the most vocal opponent of the CAP, to which it was a net financial contributor. The British government wanted to use the opportunity of the GATT negotiations to abolish this costly, anti-liberal policy. How did the, divergent, if not antagonistic, interests of the member states become aggregated into a single negotiating position for the Uruguay Round?

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<sup>40</sup>The German position was more complicated than what this stylized presentation seems to suggest. Indeed, many German agricultural producers favored the status quo in the CAP, but managed to hide behind France and therefore did not take any of the public blame.

Decision-making rules for EC trade policy have changed slightly since the Kennedy Round. During the Uruguay Round negotiations, the EC bargaining proposals were elaborated mainly by the Agriculture and coordinated by the External Affairs directorates of the Commission. Then, proposals were examined by the "113 Committee," which is composed of senior civil servants from the member states (including representatives from the ministries of agriculture and trade) and serves as a "chaperon" to the Commission (Moyer, 1993). Once approved by the committee on a consensual basis, proposals are transmitted to the Committee of Permanent Representatives (COREPER) and subsequently to the general Council of Ministers which agrees on a position and gives an official mandate to EC negotiators.<sup>41</sup> According to Article 113, the Council decides according to the qualified majority rule, which represents a major institutional change compared to the Kennedy negotiations. Nevertheless, in practice consensus prevails and decisions are not adopted if a country, especially one of the three major countries, completely opposes it. Consensus, however, is harder to reach at twelve than at six. Therefore, compromise has replaced consensus as a mode of reaching decisions in the EC, and the member states constantly make side-bargains to one another in order to reach compromise.

More than the rules, however, what has changed in the making of EC trade policy since the Kennedy Round is the context of integration and the experience of EC institutions. De Gaulle's threat to shatter the European edifice if his agricultural demands were not met seemed credible to the American administration because at the time the EC was not firmly established as a working, permanent institution, which had powers to constrain member states and overcome institutional crisis. In contrast, by the start of the Uruguay Round the EC had shown its resilience, having survived through an economic recession, and its attractiveness, through successive enlargements. Moreover, the member states had just committed to further deepen their institutional ties and completely abolish their internal barriers by 1992, thereby triggering in Europe a climate of enthusiasm and optimism for the EC in the late 1980s. Finally, the constant expansion of the number of policies falling under EC competence increased the potential for side-bargains among member states, as well as the influence of the EC on everyday life in Europe. Therefore, even at the height of the Maastricht crisis in 1992, the US administration did not believe that the absence of American agricultural concessions in GATT could provoke the dissolution of the EC.

### *The 1992 reform of the CAP*

Reached through a compromise among the member states, the initial strong EC position in agricultural negotiations led to the failure of the December 1990 conference, which was supposed to end the Uruguay Round. Facing increasing isolation internationally, the EC softened its demands, but could not obtain concessions from the US. In a spectacular move, the European Commission, under the impetus of Agriculture Commissioner Ray Mac Sharry, then proceeded with an internal reform of the Common Agricultural Policy, which kept the US-EC agricultural negotiations on hold for a while.

On May 21, 1992 the EC Council of Ministers adopted a reform of the CAP after a year of intense debate. The main internal disagreements, opposing Northern versus Southern states, and large-farm states versus small-farm states, focused on the proposed levels of price and quota cuts, the distribution and duration of compensatory payments,

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<sup>41</sup>Trade ministers from the Member States make the decision, but they usually ask their Ministers of Agriculture for advice.

and the effects of the reform on farm income and production. Reforming the CAP in order to control spending and limit surplus production had been a subject of debate in the EC since the end of the Kennedy Round. Previous CAP reforms, however, only managed to modify existing policy mechanisms. The 1992 reform, in which the Commission played a central role, was more drastic. The central characteristics of the "Mac Sharry" reform were cuts in internal support, production control, and compensatory payments for lost income. Unlike the negotiations in GATT, however, the reform did not address the crucial issues of market access and export subsidies.

European and American officials disagreed over the meaning of the 1992 CAP reform. European policy-makers argued that the CAP reform represented the upper limit of changes that the EC could make to its agricultural policy. While EC officials insisted that the reform was an internal matter, they also envisioned it as a bargaining tool enabling the EC to present a more unified position on what direction agricultural reform should take. By contrast, the US argued that the reform was an internal matter, addressing only the issue of internal support. It was interpreted as a sign that the EC was ready to make concessions in agricultural negotiations and as the basis for a future US-EC agreement that would also include provisions on market access and export subsidies. Above all, the US wanted to avoid rigidity in the European position and therefore rejected EC attempts to "lock in" a negotiating position by reaching internal agreements first. US negotiators were not afraid to demand additional concessions from the EC, even after the internal CAP reform was passed.<sup>42</sup>

#### *The Blair House agreement: Negotiators with "free hands"*

The Uruguay Round negotiations on agriculture almost came to a successful end when the US and the EC concluded the so-called "Blair House agreement" on November 20, 1992. The agreement occurred as the US and the EC were on the brink of a full-blown trade war over the issue of oilseeds.<sup>43</sup> The Blair House compromise agreed to a 20 percent reduction in internal price support. On the controversial issue of export competition, the compromise provided for a reduction of export subsidies in agriculture by 21 percent in volume and 36 percent in budget over six years, using 1986-1990 as the base period. Finally, European and American negotiators agreed to a "peace clause" that would exempt from trade actions those internal support measures and export subsidies that do not violate the terms of the agreement.

The increased flexibility and autonomy seized by the EC negotiators made the Blair House compromise possible. The agreement was reached between the two main EC negotiators, the EC Commissioner for External Affairs, Frans Andriessen, and the EC Commissioner for Agriculture, Ray MacSharry, and the US Trade Representative, Carla Hills, and US Agriculture Secretary Madigan. The final days of the Blair House

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<sup>42</sup>From interviews with US officials at the United States Department of Agriculture and the Office of the United States Trade Representative.

<sup>43</sup>In the 1961-1962 Dillon negotiations, the EC granted zero-duty access to oilseeds and cereal substitutes, which at the time were not much employed. Since then, the EC started to provide internal support to European production of oilseeds in order to limit oilseeds imports. The dispute erupted when the US challenged the EC oilseeds subsidy program in GATT. After successive GATT panels found against the EC, which refused to comply, the US scheduled a full-blown trade war for December 1992. The dispute was resolved as part of the Blair House compromise.

negotiations took place in secret, in the absence of observers from the Member States.<sup>44</sup> The EC negotiators in principle followed a mandate given by the Council of Ministers, but the mandate was fairly vague and had not been renewed in a long time to take into account progress in the negotiation. Unlike in the Kennedy Round, the EC negotiators thus had "free hands" to conclude an agreement with their US counterparts. Indeed, the member states claimed that they ignored the content of the compromise for several days, if not weeks, after its negotiation.<sup>45</sup>

Thus, by contrast to the Kennedy Round, American negotiators did not complain about the absence of autonomy of EC negotiators during the Uruguay negotiations on agriculture. On the contrary, American negotiators felt that the EC representatives had a fairly broad mandate, which gave them adequate flexibility to negotiate.<sup>46</sup> They lauded the great flexibility displayed by EC negotiators during Blair House and complimented the major efforts on each part to find an acceptable solution. Of course the European negotiators used the flexibility argument in several instances, but no more than the American officials did. In other words, the lack of flexibility of EC negotiators was never perceived as a constraint in the Uruguay Round, unlike in the Kennedy Round. Hence, the Blair House compromise represented the apex of autonomy and latitude ever taken by EC Commission representatives in a trade negotiation.

#### *Renegotiation of the Blair House agreement*

France opposed the Blair House agreement as soon as it was signed, some politicians denouncing it as an "agricultural Munich" (Cloos and Margue, 1994). Fueled by violent domestic protests from angry farmers and by crucial national elections in March 1993, the French government contested the conditions in which the accord had been reached --even if observers assert that the agreement was not such a big surprise to France. Above all, French policy-makers blamed the EC negotiators who, they claimed, had exceeded their mandate. In private, French officials criticized the personalities of Andriessen and MacSharry, but they also denounced the EC institutions, which seemed to drift away from pure intergovernmentalism and allowed the overruling of fundamental objections by a member state.<sup>47</sup> The French goal thus became to reopen the agricultural negotiations and at the same time curb the growing autonomy of the EC negotiators.

France declared that it would not authorize (and had never granted) any concession going beyond the 1992 internal CAP reform. The main element of the French strategy to renegotiate the Blair House agreement was the menace of a veto, which could provoke a major institutional crisis within the EC, not without resemblance to the internal crisis during the Kennedy Round.<sup>48</sup> France threatened to veto the agreement for reasons of vital national interest, on the basis of the Luxembourg Compromise, which it claimed had not been officially abolished by the 1985 Single European Act.

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<sup>44</sup>French officials stated, in private interviews with the author, that even the president of the EC Commission, Jacques Delors, had no idea of what was included in the Blair House compromise when the negotiations ended.

<sup>45</sup>Pascal Riché reports that the broad lines of the Blair House compromise were presented to the member states on November 20 and to the 113 Committee one week later, but that no text of the agreement was available to the member states for at least two more weeks! Pascal Riché, "L'accord qui n'existait pas," in *Libération*, 15 October 1993.

<sup>46</sup>Interview with Richard Schroeter, USDA.

<sup>47</sup>Private interviews with French officials.

<sup>48</sup>See, for instance, Jean Quatremer, "GATT: Paris montre ses muscles," *Libération*, 5 March 1993.

It is not clear whether the member states and the US government believed that France would actually use its veto and consequently take the risk of provoking a grave internal crisis in the EC.<sup>49</sup> Some US officials interviewed for this study declared that the possibility of a French veto was constantly in the minds of American negotiators after Blair House.<sup>50</sup> Others said that they were following very closely the legal arguments in the EC about the constitutionality of a French veto. They were aware of the legal debates and knew that a French veto might not be acceptable. Nonetheless, American officials took the threat of veto seriously because the recent difficulties surrounding the Maastricht Treaty on European Union had created new uncertainties as to the future of European integration.<sup>51</sup>

A new political context in France also reinforced the menace of a French veto. After a long electoral campaign in which the protection of French farmers, the CAP reform and the opposition to the Blair House compromise were central issues, the Socialist government was replaced by a Center-Right government as a result of a major victory in the March legislative elections. The new government had adopted a yet harder line toward agricultural negotiations, in order to win political support from the powerful farm lobby (Keeler, 1994).

Convincing the other member states of the legitimacy of France's demand for a renegotiation of the Blair House agreement was a very difficult task. Tensions between France and some of its European partners were heightened by the renegotiation demands. Great Britain was the most fiercely opposed to France's claims, but other countries such as the Netherlands also refused to reopen the agricultural negotiations. On the other hand, France received support from several countries, mostly Belgium and Ireland, but also more generally the Southern states. Also, the French claims were supported by the main agricultural interest groups in the EC.<sup>52</sup> Germany played a crucial role in mediating the crisis and deciding of its fate. In September 1993, France received crucial backing from Germany, apparently as a trade-off for the financial crisis of the summer, and obtained from the member states the exceptional meeting of a "jumbo Council" including ministers of the General Affairs and the Agriculture Councils. Following a new threat by France to use its veto, the special Council decided to ask for a "clarification" of the Blair House compromise and reaffirmed the fundamental principles of the CAP (Cloos and Margue, 1994, pp. 164-165). The decision of the member states to satisfy partially French demands for a reopening of negotiations had the effect of strengthening the negotiating position of the EC and ultimately led to the conclusion of the Uruguay Round.

At the same time, France attempted to pursue an alternative strategy. Realizing that its appartenance to the EC was diminishing its bargaining strength and its direct impact on the final outcome of the Uruguay Round, France tried to bypass the Community and negotiate directly with the United States. Ultimately, however, this

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<sup>49</sup>Quatremer, op. cit.: "'If a vote [on Blair House] were to take place on Monday, it is clear that France, put in minority, would slam the door like in 1965" confided a diplomat from the Benelux" (author's translation).

<sup>50</sup>Interview with Richard Schroeter, USDA.

<sup>51</sup>See Philippe Lemaitre, "Le Compromis sur le GATT conforte la construction européenne," *Le Monde*, 16 December 1993: "With great thoughtlessness, in the midst of the Maastricht crisis, the French government threatened to use its veto right, a completely anachronistic weapon for a country that recently approved the European Union" (author's translation).

<sup>52</sup>The COPA strongly criticized the Blair House "pre-"agreement.

strategy proved fruitless, as the US had no interest in negotiating with France directly when the EC compromise position was less extreme than the French.

In the last few weeks of the negotiations, progress was made on the agricultural front and the Blair House agreement slightly reopened for bargaining. Facing a determined French government backed by Germany and ready to provoke a major internal crisis in the EC if its demands were not met, the US administration agreed to renegotiate specific elements of the agreement, rather than facing a possible breakdown of the talks before the crucial ultimatum provided by the expiration of the US Fast Track Authority on December 15, 1993. The final agreement on agriculture concluded between the US and the EC on December 6 improved somewhat the position of the Community compared to the Blair House compromise on several important points.

Like in 1965 when the "empty chair crisis" resulted in an agricultural compromise favorable to the EC, it is only after France credibly threatened to block the policy-making process in the EC that the Uruguay Round was concluded with an improved bargaining position for Europe. Thus, contrary to expectations derived from the conventional wisdom about unity and strength, studies of the bargaining processes in the Kennedy and Uruguay Rounds agricultural negotiations reveal that internal strife and institutional weakness can indeed be turned into a bargaining asset. Indeed, it is by acting divided and unable institutionally to negotiate that the EC obtained its most favorable results in negotiations with the US. Such institutional conditions favored the most extremist country (France in both cases), which could successfully in the Kennedy Round and less successfully in the Uruguay Round, at least until Blair House, block the negotiating process by its stubbornness.

### **Conclusion: Speculations on Partial Unity as Source of Strength**

This paper highlighted that the relative bargaining strength of the European Community vis-à-vis the United States has not improved between the Kennedy and the Uruguay Rounds of agricultural negotiations. Despite its internal divisions and loose institutional structure, the EC was able to obtain its most preferred outcome in the final agreement of the Kennedy Round, while the US, after making concession after concession, ultimately ended the agricultural negotiations on a failure. In the Uruguay Round, by contrast, the wider and more experienced EC was able to stand up to the US and let the negotiations linger, but lacked some crucial bargaining assets as a compromise drew closer. Thus the US obtained a more favorable outcome in the negotiations, while the EC was held as the one to have made the concessions.

Several factors, such as transformation in the international security environment, in the protagonists' domestic resolve and capacities, and in the nature of issues discussed, contributed to reducing the EC relative bargaining strength. Nevertheless, it seems likely that increased integration does not produce only bargaining advantages, as has been traditionally predicted. I argue that, in theory, while the initial movement toward integration in Europe may bring about greater negotiating strength, further movement toward integration may reduce the ability of the Community to resist external demands. Indeed, bargaining strength may be maximized when institutions enable the integrating region to be constrained internally.

In conclusion, I suggest that the deepening of integration has a different impact on the international bargaining strength of the integrating region depending on the phase of



integration. When a group of nations have just started their institutional integration, it is very likely that their collective bargaining strength will be relatively high vis-à-vis third countries, both because institutional constraints place them in a position of making "take it or leave it" offers that are often accepted as such by the negotiating opponent, and because the states comprising the union are careful not to endanger the fledgling institution. Indeed, the EC bargaining position was enhanced in the earlier years because the partially coordinated positions of the EC within a weak supranational polity rendered credible the threat that the EC would be unable to offer concessions. In a second phase of the integration process, by contrast, the institutional constraints are fading and internal concessions made for preserving the solidarity of the integrated entity no longer seem necessary. As a result, its negotiating positions are less prone to capture by a radical country and the negotiators for the union may find themselves in a lower bargaining position than in the first period. Thus, the type of agreement reached internationally depends on the institutional characteristics of the integrating unit.

In the early phase of integration in Europe, which began in 1958 and covered the whole Kennedy Round period, internal weakness provided external strength. During this time of elaboration and consolidation of the Community, unity provided strength for two main reasons: because there are negotiating advantages to being weak and incompletely integrated, and because the process of integration is more protected in its early phases. In the first period, the European nations forming the Community moved from totally uncoordinated to partially coordinated positions in trade negotiations, while linked together by a relatively weak supranational polity. The unanimity rule prevailed as the only policy-making procedure and the EC had no experience yet in resolving internal conflicts. It was precisely at this time that the first trade concessions were demanded by the United States. In a situation where the weakness of the EC's institutional mechanisms prevented an automatic resolution of disputes, the complete inability of the Community to offer concessions beyond the lowest common denominator appeared extremely credible. Hence, despite its important political and economic power superiority, the United States was unable to unlock the position of the EC and therefore had to accept this "hands tied" position as the final outcome of the negotiations. It thus seems that the partially integrated EC derived unexpected negotiating strength from its institutional weaknesses.

The actual and perceived fragility of the European Community in its early phase also served as a bargaining asset in favor of the Europeans, by rendering more credible the possibility of deadlock in the negotiations and, even worse, no agreement. The member states were still in the process of building the foundations of the Community, as the US demanded the first trade concessions. Such concessions could have destroyed the fragile balance of interests holding together the various EC countries. In particular, the CAP was a keystone of the European edifice, which could be disintegrated if its fundamental principles were jeopardized. Therefore, even if some EC member states disagreed with the French proposed policy on agriculture, they finally accepted to hang together in order to preserve the fragile Community, as if having the CAP was more important than having a successful Kennedy Round. This argument runs counter to the communitarian view, which predicts that solidarity in the face of external pressure will occur as the integration phenomenon becomes more anchored in daily policy-making. In fact, as a consequence of the fragility of the fledgling European institutions, internal bargains were struck with the effect of reinforcing the solidarity of the EC in the face of its main negotiating opponent, and external concessions were made by the US with the effect of enabling the EC to claim victory at the end of the negotiations.

Ironically, it seems that a stronger and more integrated Europe might be less able to resist American demands. In a second phase in the development of European

integration, which started in the early 1980s, an important number of policy decisions have been transferred to the supranational level, the EC central institutions have grown stronger, collective-integrated policy-making has become routine, and the scope of EC decision-making has extended, even though decisions are still made on a consensual basis. The Uruguay Round took place in such an environment, where the integrating unit increasingly behaved as a single entity (institutional integration in Europe is still far from being completed, however). A consequence of the reinforcing and centralization of the decision-making procedures might be to render the EC negotiating positions less prone to capture by a radical country. If the common bargaining position in negotiations resembles more the average of member states' demands than the position of the most recalcitrant country, the EC bargaining strength might be consequently diminished and the EC may come to yield more rather than less in negotiations with the United States.

Furthermore, by contrast to the Kennedy Round, the EC institutional machinery was well oiled in the Uruguay Round, as the movement toward deeper and wider integration had progressed in Europe in the preceding twenty years. The Community was no longer a fragile construction but had become a *fait acquis*. In this second phase of integration, the defense of the supranational institutions is therefore no longer a political priority, either because no one believes that their mere existence could be threatened, or because policy-makers are preoccupied with further developments toward complete integration. The Uruguay Round negotiations were apparently not putting in danger the Community, at least not until France, in the context of Maastricht, threatened to recourse to veto if its demands for a favorable agricultural reform were not met. The EC finally acquiesced to changes in its levels of internal production and subsidies, although its initial position was that the fundamental principles of the CAP would not be put in question. Negotiating positions were achieved more as the result of an average of the members' positions than as the result of solidarity along the position of the most reluctant member, which ultimately translated into a loss of bargaining leverage against the US.

These findings that bargaining strength is maximized when institutions enable the integrating region to be constrained internally may also have policy implications. First, they suggest that the recent enlargement of the European Union to three new countries, and probably more in the future, will affect indirectly the bargaining strength of Europe in future negotiations with the US. It is likely that decision-making rules in the EU will be altered and move further away from unanimity requirements, as sixteen members make it even more difficult to reach agreement on a common position. I would predict, in consequence, that the new enlargement will further diminish the cohesiveness and solidarity of the union, while making it easier for third countries to "divide and rule." Second, by extrapolating from the findings, I suggest that as the union enters an hypothetical third phase, characterized by a complete integration of the decision-making structures and an exhaustive policy scope, its bargaining position may once again be transformed. The union has then, for practical purposes, all the attributes of a state in its own right, and therefore is in no different bargaining position than a country such as the United States. If the choice of deepening integration was made only in reference to external bargaining strength, I argue, the union would be better off by being located in phase one or three. Phase two, characterized by an incomplete but still extensive degree of integration, might be indeed a bargaining burden.

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