

Political Economy of Agricultural Protectionism in the EU and US

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ABSTRACT

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Until the Uruguay Round, agriculture was an exceptional issue in international trade talks. However, at the end of the Uruguay Round, the agricultural sector was brought under the WTO disciplines. The proponents of the Agreement argued that it would introduce the fundamental reforms necessary for agricultural trade liberalization. However, the implementation process showed that this was not going to be the case for the future of the sector. On the contrary, protectionist policies in world agricultural markets continued because the Agreement contained some loopholes through which the WTO members could preserve their domestic agricultural supports and continue to restrict access to their agricultural markets while claiming to fulfill their obligations under the Agreement. In this sense, the agricultural policies of two major players in global agricultural trade, the European Union and the United States, were crucial because they were the leading WTO members who influenced the negotiation process and shaped the final agreement. Therefore, in my thesis within the framework of Robert Putnam's two-level game approach, I examined the questions of why and how the EU and the US have continued to protect their agricultural sectors.

Under the interaction of the pressures at Level I negotiations and the restrictions of the dynamics at Level II (and Level III for the EU) - institutional constraints and the pressure of domestic agricultural interests - the EU and the US followed certain complementary strategies through which they have continued their protectionist agricultural policies.

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ÖZET

Dünya Ticaret Örgütü Uruguay Turu görüşmelerine kadar olan süreçte tarım uluslararası ticaret görüşmeleri kapsamında istisnai bir konu olmuştur. Fakat Uruguay Turu sonucunda tarım sektörü Dünya Ticaret Örgütü'nün çok taraflı ticaret anlaşmaları çerçevesinde düzenlenmiştir. Bu anlaşmayı destekleyen kesimler, anlaşmanın uluslararası tarım ticaretinin liberalleşmesi için gereken reformları gerçekleştireceğini savundular, fakat anlaşmanın uygulanma sürecinde bunun söz konusu olmadığı anlaşıldı. Aksine, dünya marketlerindeki korumacı politikalar devam etti çünkü anlaşmanın içerdiği boşluklar sayesinde DTÖ üyeleri tarımsal desteklerini sürdürmelerine ve tarımsal ürünlerin piyasalarına girişini kısıtlamalarına rağmen anlaşmadan doğan yükümlülüklerini yerine getirdiklerini savundular. Bu anlamda, dünya tarım ticaretindeki iki önemli aktörün, Avrupa Birliği ve Amerika Birleşik Devletleri'nin tarım politikaları kritik bir önem taşıyor, çünkü AB ve ABD, DTÖ müzakerelerinde ve anlaşmanın son halini aldığı süreçte etkili olan en önemli üyelerdi. Bu nedenle, ben tezimde AB ve ABD'nin neden ve hangi şekilde tarım sektörlerini koruduklarını Robert Putnam'ın iki aşamalı oyun teorisi çerçevesinde inceledim. Birinci aşamadaki baskıların ve ikinci aşamadaki (AB için bir de üçüncü aşamadaki) dinamiklerin - kurumsal sınırlamalar ve tarım lobi gruplarının baskıları - etkileşimi sonucunda AB ve ABD müzakereler sırasında ve anlaşmanın uygulanma sürecinde birbirini tamamlayan bazı stratejiler uygulayarak korumacı tarım politikalarını devam ettirebildiler.

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**POLITICAL ECONOMY OF AGRICULTURAL PROTECTIONISM
IN THE EU AND US**

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KEYWORDS

- Agricultural protectionism,
- Agricultural reform,
- Liberalization of international agricultural trade,
- International cooperation,
- The Uruguay Round Agreement on Agriculture.

LIST OF ABBREVIATIONS

AMS: Aggregate Measure of Support

CAP: Common Agricultural Policy

EU: The European Union

FAIR Act: Freedom to Farm Act

GATT: General Agreement on Tariffs and Trade

MLA: Market Loss Assistance payments

OECD: Organization for Economic Cooperation and Development

PFCs: Production Flexibility Contracts

PSE: Producer Subsidy Equivalent

SPS: Sanitary and Phyto-sanitary

TRQ: Tariff Rate Quota

URAA: Uruguay Round Agreement on Agriculture

UN: United Nations

US: The United States

USDA: US Department of Agriculture

WTO: World Trade Organization

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CHAPTER I

INTRODUCTION

In the Uruguay Round negotiations, one of the most important issues was agricultural reform that would remove the restrictions in international agricultural trade. One of the treaties that was signed in the Uruguay Round was the Agreement on Agriculture. At the end of the Uruguay Round, this agreement was presented as promoting important policy changes for international agricultural trade; however, this could not be realized because the Agreement was arranged in such a way that members of the World Trade Organization (WTO) found the opportunity to continue their protectionist agricultural policies. Therefore, one of the main reasons for the failure of international agricultural reform is that the reforms did not bring about a significant change in the protectionist agricultural policies of the WTO members, especially industrial countries. This has been the case both in the European Union (EU) and the United States (US) as they have continued their protectionist policies in agriculture. In my thesis, I will firstly examine the arrangements in the Uruguay Round Agreement on Agriculture (URAA) that have blocked liberalization in international agricultural trade and the ways through which the EU countries and the US have benefited from these arrangements so as to keep their protectionist policies. Secondly, I will address the question of why the URAA was written in such a fashion.

During the Uruguay Round agricultural negotiations, the United States and the European Union were on the opposite sides. The US together with the Cairns Group¹, a group of agricultural exporter countries, supported a reform that would liberalize agricultural trade through making substantial reductions in domestic subsidies, phasing-out of agricultural export subsidies in five years and removing border protections in ten

years.² The EU, on the other hand, opposed such a bold reform that would significantly liberalize international agricultural trade, and it argued for a limited reduction of domestic subsidies only in agricultural commodities that have an important share in international trade.³ Although the positions of the EU and the US in the international arena vis-à-vis agricultural reform were different, the EU strongly opposing such reform and the US supporting liberalization of agriculture, in practice they both ended up in continuing their protectionist agricultural policies. Building upon this convergence of the EU and US in implementing the Agreement on Agriculture, I will argue that because of the institutional process through which international trade agreements are negotiated and ratified, and because of the pressures of domestic farm lobby groups on politicians both in the EU and the US reforms that are fundamental for the liberalization of agricultural trade could not be introduced; and therefore the protectionist agricultural policies of these countries have remained intact in the post-Uruguay Round period.

In examining the factors behind the failure of the international agricultural reform, I will focus on the Uruguay Round and its aftermath, because for the agricultural sector the Uruguay Round is a cornerstone since it was the first time in the history of international trade negotiations that agriculture was brought under international trade disciplines through a comprehensive agreement.

Agriculture had been an exceptional issue in the negotiations of the General Agreement on Tariffs and Trade (GATT) since its establishment in 1948.⁴ The Article XI of GATT provided an exclusion of primary goods such as products of agriculture, fishery, forestry and mining from bans on import quotas and export limitations.⁵ This exclusion was created due to the insistence of the United States because without this exclusion it could not implement its agricultural support programs. As a result of this

exclusion, agriculture was left out of the negotiation agenda in the first four rounds of the GATT.

The policy of the United States to exclude agriculture from the GATT disciplines changed in the 1960s. The main reason for this policy change was the huge grain stocks accumulated as a result of the farm subsidy programs. The disposal of these stocks became a big problem for the US government because when the stocks were unloaded in the domestic market, this led to the reaction of domestic farmers and when the government chose to dispose of these stocks in the international market, it had to pay huge sums for this.⁶ Consequently, the US pushed for bringing agriculture under the GATT regulations. Therefore, in the fifth round, the Dillon Round of 1960-1961, agriculture was taken into the agenda; however, nothing beyond the binding of oilseed tariffs was introduced.⁷ In the Kennedy Round (1964-1967), the International Grains Agreement was signed to reform agricultural trade; however, it did not succeed in bringing about a significant change.⁸ In the next round, the Tokyo Round of 1973-1979, agriculture was again on the agenda. As Clayton Yeutter argues, “the US and other nations were becoming visibly distressed by the actions of the European Community, which had begun to use export subsidies extensively as an element of the Common Agricultural Policy.”⁹ This extensive use of export subsidies in the Common Agricultural Policy (CAP) helped the EC to become one of the major players in world agricultural trade leading to increasing US pressure to bring agriculture under the GATT disciplines.¹⁰ Although during the Tokyo Round negotiators sought to introduce a reform in non-tariff agricultural barriers, as well as in tariffs and export subsidies, as a result of EC resistance, negotiations did not lead to a significant change.¹¹ During the late 1970s and early 1980s, the market share of the European Community in agriculture

increased a great deal and in turn the market share of the US and other agricultural exporters declined. Hence in order to challenge the export subsidies of the EC, the US started the Export Enhancement Program which led to a subsidy war in agriculture. Product surpluses and subsidy war resulted in an agricultural crisis in many countries, throwing many farmers into bankruptcy. Consequently, a consensus emerged between the contracting parties of the GATT about a need for a reform in international agricultural trade.¹²

The next round of GATT negotiations was the Uruguay Round which began in 1986. At the beginning of the Uruguay Round, the United States and the Cairns Group of agricultural exporters insisted on taking agriculture into the negotiation agenda and on introducing substantial reforms to liberalize international agricultural trade.¹³ Consequently, agriculture was put on the agenda together with textiles and clothing in return for the inclusion of the services, trade-related investment measures (TRIMS) and trade-related intellectual property rights (TRIPS).¹⁴

Negotiations during the Uruguay Round ended with the signing of the Agreement on Agriculture (URAA) in June 1994 in Marrakech, Morocco.¹⁵ The Agreement on Agriculture can be examined in two major parts. The first part of the Agreement is composed of provisions about export subsidies, restrictions on agricultural imports and domestic support programs. The second part of the Agreement includes articles about sanitary and phyto-sanitary (SPS) standards which bring about rules concerning animal and plant health and food safety.¹⁶

During the Uruguay Round negotiations, the advocates of agricultural reform argued that free trade and open markets would create a level playing field for the member countries and that the URAA would provide greater access to agricultural

markets by reducing trade barriers and eliminating farm subsidies.¹⁷ Although in the URAA it was stated that the agreement aimed “to establish a fair and market-oriented agricultural trading system correcting and preventing restrictions and distortions in world agricultural markets,”¹⁸ as a result of its implementation this was not achieved. The proponents of the WTO negotiations have argued that “the progressive implementation of the results of the Uruguay Round as a whole will generate increasing opportunities for trade expansion and economic growth to the benefit of all participants;”¹⁹ however, this is not what has come out in the post-Uruguay Round period. Since the Agreement has some loopholes and provides great flexibility to members in the application of provisions, the WTO members, especially the industrial countries, have retained their protectionist agricultural policies even though they have fulfilled their commitments in the Agreement. Hence, reforms crucial for the liberalization of agricultural trade have not been achieved in the implementation process of the Agreement, and the decline in total agricultural output in the world markets and the increase in agricultural commodity prices have been limited.²⁰

The prospect of agricultural liberalization was one of the main reasons why many developing countries became a member of the WTO.²¹ Today two-thirds of the 150 WTO members are developing countries.²² Jordana Hunter argues that “agriculture was a key area where benefits were expected to flow strongly in the direction of developing countries”,²³ since as a result of the removal of barriers in agricultural trade, developing countries would reap the benefits of their comparative advantage in agriculture; however, the implementation process did not realize these expected benefits.²⁴ One of the main reasons for this was the continuation of the protectionist agricultural policies in the industrial countries. By increasing agricultural output and decreasing the prices of

agricultural commodities in the world market these policies have taken away the opportunity of developing countries to enjoy their comparative advantage in agricultural production.²⁵ Hence, to date under the WTO negotiations fundamental reforms necessary for the liberalization of international agricultural trade have not been accomplished.

The failure of international agricultural reform is a crucial problem especially for developing countries because it has deep repercussions for these countries as it signals that the agricultural support systems of industrial countries will remain unchanged leading to unfair competition between industrial and developing countries as a result of the discrepancy in the amount of support these two groups of countries provide for their agricultural sectors. While the agricultural sector in industrial countries is characterized by heavily-subsidized farms, developing countries do not have the means to support their agriculture sector in similar amounts. The agricultural subsidies of industrialized countries lead to an overproduction of products. In order to dispose of product stocks these countries promote export of the excess supply through export subsidies. This in turn reduces the prices of products in the world markets, leading developing country farmers to lose export opportunities for agricultural products such as vegetables, cut flowers and cereal grains in which they would have a comparative advantage if industrial countries did not heavily subsidize their agricultural sectors.²⁶ As a result of these subsidies and the inflow of cheap imports, developing countries also lose their market share in their own domestic markets.²⁷ A study of the US Department of Agriculture (USDA) conducted in 2001 indicates that “protectionist policies in developed countries are responsible for around 80 percent of global agricultural price distortions, with the European Union contributing 38 percent and the United States

around 16 percent.”²⁸ These policies depress prices of agricultural commodities in world markets by about 12 percent on average.²⁹ A World Bank study published in 2005 reports that reform in international agricultural trade would provide 70 percent of the global gains from merchandise trade reform which amounts to \$265 billion.³⁰ The same study indicates that reform may increase international agricultural trade by more than half a trillion dollars in 2015 which is a 74 percent increase compared to the base period. Also, it may increase agricultural exports 115 percent for developing countries and 50 percent for developed countries.³¹ In short, an international agricultural reform would significantly benefit developing countries as they would find the opportunity to increase their market share in world agricultural trade. Since the majority of the output of these countries is composed of agricultural products, this opportunity is crucial for their development prospects.³²

The restriction of the export opportunities of developing countries due to ongoing protectionist agricultural policies harms especially the poor segments of their societies because half of the population in these countries live in poor rural areas in which the primary source of income is agriculture.³³

In addition to impeding the development prospects of developing countries through export promotion, agricultural support systems in the industrial countries increase the dependence of developing countries on imports because local agricultural production declines in the face of this unfair competition.³⁴ This in turn leads to the dislocation of farmers in these countries since they cannot continue agricultural production as they suffer from depressed world prices and high costs of production.³⁵

The devastating effects of continued protectionist policies of developed countries are shown by a UN report. The report evaluates the consequences of unilateral

liberalization of agriculture in forty-eight poorest countries and indicates that although they opened their markets to foreign agricultural products and oriented their agriculture to the production of cash crops, poverty deepened in these countries.³⁶

In sum, protectionist agricultural policies have serious repercussions for developing countries because farmers in these countries lose export opportunities and the market share in their own domestic markets due to these policies. As a result, many developing country farmers are dislocated. Since in developing countries agriculture is the primary source of income for the majority of the population and agricultural products have the largest share in foreign trade, an international agricultural reform that would eliminate protectionist agricultural policies and increase the market share of developing countries in global agricultural trade is a significant goal for these countries to alleviate poverty and accomplish economic development. Therefore, understanding why protectionism still persists in global agricultural markets despite the fact that protectionist agricultural policies have many adverse consequences for the majority of people around the world is an important problem. In this sense, exploring the reasons behind the continuation of protectionist agricultural policies in industrial countries is crucial.

In order to analyze the questions of why the reforms fundamental for agricultural trade liberalization have not been realized and why agricultural protectionism in the industrial countries has continued after the signing of a comprehensive agreement, I will examine how domestic and international factors have interacted in a way to hinder agricultural reform in these countries. Particularly, I will examine these questions in the contexts of the EU and US because of a number reasons. Firstly, the EU and the US are the largest importers and exporters of agricultural commodities in world markets.³⁷

Secondly, among global agricultural producers the EU and the US are the ones that provide the highest amount of protection for their producers.³⁸ Thirdly, because of their wealth, size, and domestic farm policies, the United States and the European Union have been the principal actors that have shaped the agricultural trade negotiations. As mentioned above, the negotiating positions of the EU and US in the WTO were different; however, they resolved their controversies and forged a bilateral agreement that provided the basis of the final agreement on international agricultural trade.³⁹ Together with the reasons cited above, this consensus between the EU and the US paved the way for them to dominate the negotiation process in the WTO. While the EU and the US reached a consensus on the terms of the Agreement, developing countries could not act as united front during the negotiations because of their diverse interests and loose coalitions.⁴⁰ By weakening the negotiating position of developing countries this disunity operated as another factor that helped the EU and the US to lead the negotiation process and shape the final agreement according to their interests. Moreover, developing countries opted for a multilateral agreement on trade issues because in their perception this was more advantageous compared to bilateral agreements since in multilateral negotiations, they could have relatively more bargaining leverage than in bilateral negotiations.⁴¹ Therefore, concluding a multilateral agreement at the end of the Uruguay Round was an important goal for developing countries. The particular concern of developing countries to conclude a multilateral agreement on trade issues also operated as a factor that strengthened the negotiating positions of the EU and the US. Last factor that helped the EU and the US to lead the negotiations was the power asymmetry between the WTO members. Due to this power asymmetry, developed countries shape the structures, rules, and practices of the WTO more than developing countries.⁴²

Thefore, during the Uruguay Round and in its aftermath, developing countries could not be as effective as developed countries in shaping the policy changes in agriculture. To sum up, as a result of all these factors, the European Union and the United States dominated the WTO negotiation process and became the principal actors that shaped the policy changes in global agricultural sector. As mentioned above, protectionist agricultural policies of industrial countries have many adverse effects for developing countries in terms of economic development and poverty alleviation. Because of the factors cited above agricultural policies of the EU and the US play a more crucial role for the development prospects of these countries. Therefore, exploring the strategies through which the EU and the US shaped the final agreement and the factors behind these particular negotiating strategies is crucial for understanding the implications of the Agreement on Agriculture for the global agricultural sector and evaluating the prospect of the international agricultural reform.

In my thesis, I will use Robert Putnam's two-level game theory in order to examine how domestic factors in the EU and US influenced the negotiation process at the WTO and also how the dynamics of WTO negotiations interacted with these factors in a way to impede agricultural reform. Robert Putnam's two-level game approach offers a framework that combines different levels of analysis to highlight the interaction between domestic and international factors. According to Putnam, analyses that examine only domestic variables or only international factors can offer merely a partial explanation of the subject matter; therefore, instead of such partial explanations analyses accounting simultaneously for the interaction of domestic and international factors are needed.⁴³ In his two-level game approach, Putnam emphasizes that during policy formulation and implementation processes, decision-makers are surrounded

simultaneously with domestic and international pressures. Therefore, suggests Putnam, international negotiations operate as a two-level game in which decision-makers try to balance domestic and international pressures and conclude an agreement that would satisfy both domestic and international demands. During negotiations for an international agreement at the domestic level, i.e. Level II, different groups pressure the decision-makers to further their interests and politicians try to maintain or increase their power through building coalitions among these groups. At the international level, i.e. Level I, decision-makers aim to reach international agreements so as to satisfy domestic pressures and to avoid adverse consequences of foreign developments.⁴⁴ Building upon this framework, in my thesis I will examine how Level II politics in the EU and US is reflected on Level I negotiations and how the dynamics of Level I negotiations influence Level II politics in the case of WTO negotiations on international agricultural trade. The thesis will be in the following order. In the second chapter, I will explain the theoretical framework of the thesis. In the third chapter, I will deal with what the URAA has brought about and to what extent it has been successful in reforming international agricultural trade. Also in this chapter, I will examine how the EU and the US have implemented the URAA. In the fourth and fifth chapters, I will analyze the factors leading to the continuation of protectionist agricultural policies in the EU and US. In these chapters, I will focus on two main factors that block agricultural liberalization in the United States and the European Union. The first factor is related to the institutional processes through which the reforms are carried out and international agreements are ratified. The second factor is related to Level II politics, i.e. how domestic politics in the United States and European Union affect the initiatives for the liberalization of the agricultural sector. In examining Level II politics, I will focus on four particular factors

that enable agricultural groups to be effective in shaping the agricultural policies of the EU and US: election rules, strong mobilization of agricultural groups, lack of effective lobbying for the removal of protectionist agricultural policies, and public perceptions about agricultural policies. As a result of these factors, agricultural groups in the European Union and the United States pressured their governments and influenced their decisions during the WTO negotiations on agricultural reform to impede liberalization in international agricultural trade. In this way, the dynamics of Level II were reflected in Level I negotiations and resulted in the continuation of protectionist policies in the agricultural sector of the European Union and United States.

CHAPTER II**THEORETICAL FRAMEWORK**

During the twentieth century the discipline of international relations was characterized by theoretical diversity. Since the formative years of the discipline, scholars have used many different perspectives to explain international relations. Dougherty and Pfaltzgraff argue that “international relations theory has had recurring and continuing debates about contending approaches to theoretical development.”¹ As a result of these debates, international relations study has been characterized by competing theories rather than one paradigm becoming dominant in the field. This theoretical diversity has also been reflected in international cooperation literature. In this chapter, I will review these theories and develop a framework to evaluate the WTO negotiations on agricultural trade liberalization.

The theoretical diversity in the field has caused international relations scholars to attribute the causes of phenomena in the international arena to different factors. One strand of theories in the field has used systemic explanations to understand international relations.

Structural realism is one of the theories that explains international relations through systemic lenses. Kenneth Waltz is one of the prominent structural realist thinkers who explained the premises of this approach in his book *Theory of International Relations*, published in 1979. In Kenneth Waltz’s view, the international system takes precedence over states as a unit of analysis. International system constraints state behaviour since states’ actions are predetermined by their positions in this system.² Since the international system is considered to determine the outcomes in international relations and states are supposed to be incapable of controlling the system, in neorealist

theory the actions of states and changes internal to them do not play significant roles in international relations.³ This conception leads neorealist theory to “exaggerate the impact of the system upon the national actors and, conversely, discount the impact of the actors on the system.”⁴ Richard Ashley indicates that by portraying “the structure of the international system as though its existence is independent of states”⁵ neorealism underestimates the role of states in constructing the system.

Kenneth Waltz defines structure according to three criteria. The first one is the distribution of capabilities among the units. The differences among states with respect to the means they possess for security reasons is the principal criterion that distinguishes units from each other. The second criterion is the way the parts of the system are organized. He suggests that domestic politics is characterized by hierarchy where units are differentiated according to the degree of authority they have. In contrast, he argues, the international system is characterized by anarchy where units (states) have equal sovereignty and stand in a horizontal relationship. The third criterion Waltz uses to define structure is the specification of the units’ functions. According to Waltz, as the system becomes more hierarchical, the functions of the units differentiate more. Conversely, as the system becomes more anarchical, the differentiation of the functions of units decreases. Since the international system is characterized by anarchy, its units - states - are functionally similar units.⁶

By considering states as functionally similar units Waltz neglects the differences among them. Andrew Moravcsik argues that neorealism’s neglect of differences in states’ preferences, decision-making procedures and foreign policy strategies weakens the approach because it cannot sufficiently explain the variance in the goals of states.⁷ In addition, ignoring differences among states produces a “black box” concept of national

actors⁸ and therefore neorealism fails to explain the process through which foreign policies are constructed as a result of bargaining between different societal groups at the domestic level.⁹

Dougherty and Pfaltzgraff indicate that neorealism has generated many debates in the international relations literature since the 1980s. The central point of these debates has been Waltz's assertion that international relations can be divided into system and unit levels of analysis.¹⁰ However, making such a distinction and excluding the domestic level from analysis diminishes the explanatory power of the theory and thus it fails to capture the details of a given issue.

The second theory using systemic explanations to analyze international relations is the regime theory. Faced with problems in the systems governed by international organizations such as the breakdown of predictable monetary relations under the Bretton Woods institutions and the destruction of arrangements about oil pricing and availability, in the early 1970s scholars studying international institutions perceived that they had overstressed the effects of formal structures and international agreements. This new perception led to the rise of international regimes literature.¹¹ The study of international regimes conceived international organizations as actors not just as agencies that fulfill the given tasks. The international regimes literature emphasized the need for understanding how international governance works by examining the way particular rules, norms and procedures operate and affect the outcomes. The research agenda of regime literature has changed over time. Initially, it focused on the issue of the distributive consequences of the international regime norms which was replaced by the questions of how international regimes are created and transformed and how they influence state behaviour. In the 1980s, scholars like Robert Keohane and Joseph Nye

integrated the study on international cooperation into the international regime literature. These scholars argued that international institutions foster cooperation among states by overcoming problems of collective action, high transaction costs, and information deficits or asymmetries.¹² This argument on international cooperation was highly criticized by neorealist scholars such as Joseph Grieco and John Mearsheimer who argued that due to relative gains logic and concerns about cheating and defection states shy away from cooperation in the international arena.¹³ The different perspectives of international regime scholars and neorealist authors on international cooperation generated a debate around the issue of whether institutions matter in international relations. This debate led to an effort on the part of regime scholars to prove that international institutions significantly affect state behaviour. Focusing on proving that institutions matter in international relations, these scholars neglected the analysis of how these institutions transform state behaviour.¹⁴

In the framework of this debate, regime scholars responded to the neorealists by building their arguments on the rationalist approach; therefore, they conceived states as unitary rational actors. Lisa Martin and Beth Simmons argue that the assumption of states as unitary rational actors led regime literature to use international institutions only as independent variables and therefore to ignore the effects of domestic politics on shaping the rules and procedures of international institutions.¹⁵ According to Martin and Simmons, regime scholars perceive using international institutions as dependent variables and thereby examining the effects of domestic factors on them as accepting the realist assumption that international institutions have no independent effect on state behaviour since they are “basically a reflection of the distribution of power in the world and they are based on the self-interested calculations of the great powers.”¹⁶ Martin and

Simmons object to this perception and argue that institutions need to be evaluated both as dependent and independent variables because on the one hand, states create and shape international institutions since they face problems that can only be resolved through institutional mechanisms; on the other hand, institutions constrain and shape state behaviour although under some circumstances they may be resisted by states.¹⁷ In their article, Martin and Simmons explain a number of ways that emphasize the point how domestic dynamics influence international institutions. Firstly, they argue that domestic actors can delegate their policymaking authority to these institutions when this promotes their own interests. Secondly, if certain interest groups prevent the introduction of policies that would improve the welfare of citizens in general, policymaking authority may be delegated to the international institutions. Moreover, actors engaging in international transactions and also those groups that have commitment for the norms of the international society may seek solutions through international institutions. In sum, under certain circumstances domestic actors may choose to act through international institutions and may affect institutional mechanisms. Therefore, domestic factors need to be integrated into regime analysis.¹⁸

As seen in the discussion above, both neorealism and regime theory have concentrated on systemic explanations and have neglected the effects of domestic variables. According to Helen Milner, the concentration of scholars studying international cooperation on systemic level analyses creates a superficial distinction between international relations and domestic politics and as a result, these scholars ignore the similarities between the domestic and international levels.¹⁹

Milner indicates that the limitations of international cooperation literature posed by the exclusion of domestic politics are reflected mainly in the assumptions made about

the determination of national interests of states, the strategies available to states to change the international system, and the capacity of states to implement cooperative agreements. In these areas, “the literature depends on implicit theories about internal politics”.²⁰

Systemic theories on international cooperation fall short of explaining the factors behind the determination of national interests of states because of the limitations of game theoretic models. These models take cost-benefit analysis in determining the state actions as given; therefore, they do not provide explanations for the motivations of the actors.²¹ Because of this limitation of game theoretic models, argues Milner, systemic theories of international cooperation slip into inductive case studies dependent on domestic factors.²² As a result, in analyzing security issues the perceptions of elites are used while for economic issues the internal distribution of the costs and benefits of different international policies is used.²³

The analysis of strategies available to states to change the international system is the second issue which is problematic in systemic theories. Milner argues that the dynamics underlying the assumptions about cooperation (such as international regimes, power asymmetries, or actors’ expectations about the future) are portrayed as structural conditions generated by the international system; however, these conditions may well be affected by domestic factors such as perceptions of decision-makers, public opinion, bureaucratic politics or the influence of interest groups. In this sense, domestic level factors may be effective in shaping international cooperation patterns.²⁴

Lastly, Milner indicates the capacity of states to implement cooperative agreements as another issue where domestic factors play an important role. Although states reach an agreement, it may not be implemented due to domestic opposition.

Therefore, during international negotiations, politicians calculate domestic reactions to the terms of the agreement. Hence both in the negotiation and implementation processes of international agreements, domestic forces play a crucial role.²⁵

In sum, the motives of actors in the international arena are complex and derive from different sources which may have domestic or international roots. The international arena is not isolated from the domestic realm. Hence, many factors in the domestic realm such as the interaction of actors, aspects of the decision-making procedures and strategies of decision-makers have strong effects on the international arena. The same effect holds for the domestic realm; domestic politics is not isolated from international phenomena. As economic, social and political interdependence among states increase, regional/international institutions become increasingly involved in international politics, and many groups become intertwined across their countries; developments in the international arena increasingly affect the domestic realm of states. Hence any theory that focuses on either international factors or domestic dynamics alone is insufficient to explain current circumstances; therefore, neither systemic theories nor domestic ones can fully analyze issues in the international arena. One of these issues which cannot be thoroughly analyzed through theories using only systemic or domestic lenses is the ongoing WTO negotiations on agricultural trade liberalization. Systemic level analyses of this issue poses two problems. Firstly, when examined at the systemic level, it is generally concluded that significant liberalization is underway because for the first time in the history of international trade negotiations agriculture was brought under GATT disciplines and in the Uruguay Round important restrictions were introduced in domestic support programs, export subsidies and market access issues. However, the implementation of the Uruguay Round Agreement on Agriculture (URAA) revealed that

agricultural protectionism still persists and those countries who were supposed to gain from this Agreement continue to bear the disadvantages in international agricultural trade. Hence, examining WTO negotiations and pointing out the progress in agricultural liberalization by evaluating the provisions of the URAA does not provide sufficient explanation for the question of why agricultural protectionism still persists. Secondly, when WTO negotiations are examined only through systemic lenses and domestic level variables are excluded, the different positions of the EU and US in the international arena vis-à-vis agricultural reform - the EU strongly opposing such a reform and the US supporting liberalization of agriculture - are portrayed as a critical factor in agricultural liberalization. However, when domestic variables are taken into account, it is revealed that the difference between the EU and US in agricultural trade liberalization negotiations disappears when it comes to the implementation of the Agreement on Agriculture because in practice they both continued their protectionist agricultural policies. In my thesis I will examine this convergence between the EU and US in implementing the Agreement on Agriculture and the persistence of agricultural protectionism in the post-Uruguay Round period in the light of a framework that underlines the complex interaction between the variables at the systemic and domestic levels. In his two-level game approach, Robert Putnam offers such a framework that combines different levels of analysis to highlight the interaction between domestic and international factors.

Putnam argues that analyses that examine only domestic variables or only international factors present merely a partial explanation of the subject matter; therefore, instead of such partial explanations, analyses accounting simultaneously for the interaction of domestic and international factors are needed. According to Putnam, the

critical point in analyzing a certain issue is to move from the consideration that during the process of policy formulation and implementation decision-makers are concerned simultaneously with domestic and international pressures. In considering domestic and international pressures in the decision-making process, what needs to be emphasized is the interaction of parties, social classes, interest groups, legislators, public opinion and elections.²⁶ By emphasizing the role of these groups in the decision-making process Putnam objects to the conception of the state as a unitary actor, and points out the importance of the bargaining process behind foreign policy behaviour.

Putnam suggests that international negotiations can be considered as a two-level game. At the domestic level, different groups pressure the government to further their interests and politicians try to maintain or increase their power through building coalitions among these groups. At the international level, governments aim to reach international agreements both to satisfy domestic pressures and to avoid the adverse consequences of foreign developments.²⁷ Therefore, “diplomatic strategies and tactics are constrained both by what other states will accept and by what domestic constituencies will ratify.”²⁸

Putnam calls the international level “Level I” and the domestic level “Level II”. He indicates that negotiations at Level I need to be ratified by Level II. According to Putnam, this ratification may be formal, such a voting procedure, or informal, such as bargaining between different societal actors. The crucial point here is that an agreement concluded at Level I cannot be amended at Level II during the ratification process. The only way to amend such an agreement is to open the agreement for negotiation at Level I.²⁹

Within the framework of this two-level negotiation process, Putnam defines the possible agreements that would be ratified at Level II as the “win-set” of a given Level II constituency. There are two reasons why the concept of win-sets is important. Firstly, it stresses the point that when negotiating for an agreement, the decision-makers need to consider its effects both at the domestic level and the international level. If both sides in any negotiation have large win-sets, then an agreement in Level I is more likely because larger win-sets increases the possibility that the foreign policy options of the two sides will overlap. Conversely, if the sides have small win-sets, then the possibility of an agreement diminishes. Secondly, the concept of win-sets highlights the bargaining power of negotiators. If a negotiator’s win-set is perceived larger by the other side, then he may be strongly pressured to give concessions. However, if a negotiator is considered to have a smaller win-set, then he may have the advantage of avoiding making concessions or pressures to accept certain proposals since he can state that those proposals may be rejected by his constituents.³⁰

Putnam indicates that three factors determine the size of win-sets. The first factor is the distribution of power, preferences, and possible coalitions at the domestic level. The size of the win-set will be small if the cost of “no agreement” to constituents is not significant. The perceived costs of an agreement differ for various societal groups composing the constituents; therefore, coalitions within the constituents are important for the size of win-sets. The size of the win-set depends on the relative size of coalitions that support or oppose the agreement. Here Putnam also emphasizes that which coalition groups participate in the decision-making process or to what extent they can pressure decision-makers is a crucial factor in determining the size of win-sets. If a coalition

which supports the agreement is more effective in influencing the decision-makers, then the win-set will be larger.³¹

In evaluating the reasons behind the failure of international agricultural reform, I will focus on the distribution of power among coalition groups at Level II and I will particularly analyze the question of whether farm groups are effective in shaping the decisions on agricultural policies according to their preferences in the context of the European Union and the United States. As emphasized by Putnam, I will focus on the ways through which the preferences of farm groups are canalized into the policymaking process. In the context of the EU and the US, election rules is one of these ways which play a significant role in how the preferences of agricultural groups are canalized into the policymaking process, because although the contribution of agriculture to economic growth declined in these countries, this “was not matched by a similar reduction in the political clout of farming interests over policymaking and electoral calculations”.³² Hence, election rules operate as one of the factors that provide agricultural groups with the capacity to influence the decisions on agricultural policies.

As indicated above, Putnam argues that if a coalition which supports the agreement is more effective in influencing the decision-makers, then the win-set will be larger. Put in another way, if a coalition group that opposes a given agreement has the power to influence the decision-makers, then the win-set will be restricted by the preferences of this group. This point is also addressed by Mancur Olson who argues that concentrated groups that are disadvantaged by an agreement will become strong opponents of the agreement.³³ For decades this has been the case for the agricultural groups in the EU and US because these groups, which are highly mobilized and

powerful, strongly opposed any initiative that would bring about significant changes in agricultural policies.

Mancur Olson explains the strong mobilization of such concentrated groups with a number of reasons. One of these reasons is the existence of a “privileged group” in these groups. According to Olson, the individuals in the privileged group tend to presume that a certain amount of the benefits provided by the collective good will accrue to them.³⁴ Therefore individuals in the privileged group “have a substantial incentive to act in the group interest”.³⁵ In the context of the agricultural sector, the disproportionate allocation of agricultural subsidies creates such a “privileged group” among the farmers. According to Olson, the stakes in subsidies for this privileged group are so high that they lead the farmers in this group to lobby for the continuation of subsidies on behalf of all producers.³⁶

Olson argues that if a certain organization provides a collective good that inevitably goes to every individual in this organization, the individuals in this organization in general do not have an incentive to voluntarily contribute to this organization.³⁷ Hence, argues Olson, individuals do not support such organizations because of the collective goods they provide but rather because of the “selective incentives” they offer to their members. According to Olson, “a selective incentive is the one that applies selectively to the individuals depending on whether they do or do not contribute to the provision of the collective good.”³⁸ Through selective incentives organizations recruit members and provide their support for the goals of the organization. Olson argues that in general agricultural organizations provide positive selective incentives such as services necessary for farmers to run their business or certain advantages like discounts which operate as tools for getting the farmers to join

these organizations and pay dues. The farm organizations in turn use this money to lobby for promoting the interests of their members.³⁹ In this way, selective incentives operate as another reason for the strong mobilization of agricultural groups.

In addition to privileged groups and selective incentives, in his discussion on the logic of collective action Olson points to another reason for the strong mobilization of small interest groups. He argues that the “insider group status” of some groups within the policymaking process may provide them with exceptional knowledge through which they can effectively lobby the decision-makers and acquire certain benefits.⁴⁰ In the context of the agricultural sector, the insider group status of farm groups in agricultural policymaking processes operates as another reason for their strong mobilization. The access of agricultural groups to policymaking institutions and their close relationships with the decision-makers provides them an insider group status so that they can effectively shape the policy changes in the agricultural sector.⁴¹

Mancur Olson argues that “the larger the number of individuals ... that would benefit from a collective good, the smaller the share of the gains from the action in the group interest that will accrue to the individual ... that undertakes the action.”⁴² Therefore, Olson claims, individuals in large groups have little or no incentive to do something in the group interest. Thus in such groups there will be little or no group action to promote the interests of the group.⁴³ In addition to the dispersion of gains from a certain public good, the diffusion of costs in large groups eliminates any incentive for these groups to get mobilized and establish organizations to promote their interests.⁴⁴ According to Olson, this is the case with consumers and taxpayers. Although they may be adversely affected by certain policies, in general consumers and taxpayers do not get mobilized to change these policies because the costs of these policies are dispersed

among many people and also the gains that may accrue from policy changes tend to be very small. Hence there are no strong incentives for these large groups to get mobilized. For this reason, in contrast to the agricultural interest groups, taxpayers and consumers who pay for the costs of protectionist policies are not organized groups. This is the case in the context of the EU and US because in European and American societies there is a lack of effective lobbying for the removal of these policies. In these countries, besides the diffusion of the costs of agricultural programs, public perceptions play a dominant role in the lack of mobilization against protectionist agricultural policies. Therefore, in the EU and the US, politicians address the long-established perceptions of the public in order to legitimize these policies. The legitimation of protectionist agricultural measures in this way frustrates the initiatives for changing the status quo in these policies because the majority of European and American citizens perceive domestic farm programs in terms of protecting small farmers and therefore support them.

To sum up, in examining the power and preferences of domestic groups and their effects on agricultural policies, I will address the four factors discussed above – election rules, strong mobilization of agricultural groups, the lack of effective lobbying for the removal of protectionist agricultural policies, and public perceptions.

In his two-level game approach, Putnam points to two more factors in addition to preferences and possible coalitions at Level II which altogether influence the size of the win-sets of states in international negotiations. The second factor Putnam mentions is the institutions at Level II. Since political institutions significantly shape the process through which the interests of different societal groups are reflected in policy decisions, domestic institutional structures play a crucial role in determining how a certain international cooperation agreement will be concluded.⁴⁵ Domestic political institutions

may give certain groups more power to affect the policymaking process and leave some groups out of this process. In this way, they reflect the interests and preferences of those groups who can participate in the policymaking process and pressure decision-makers. In evaluating the effect of the political institutional framework at the domestic level, Putnam emphasizes the autonomy of decision-makers from their constituents. Those negotiators who have more autonomy will have larger win-sets and thus a greater chance to achieve an international agreement. Another factor for evaluating the effect of the institutional framework on the size of win-sets is to examine who holds the veto power. If the domestic ratification procedures of international agreements give considerable veto power to different groups among the constituents, then the ratification of the agreement becomes difficult.⁴⁶ In the framework of Putnam's argument on Level II institutions, I will examine how institutional structure at Level II influences the bargaining and ratification processes of a given international agreement. I will particularly address the questions of how negotiating authority and ratification powers are shared among Level II institutions and how particular sets of arrangements in these processes restrict the win-set of the EU and US in Level I negotiations.

As the third factor influencing the size of win-sets in international negotiations, Putnam points to the strategies employed by decision-makers during Level I negotiations. Putnam argues that each negotiator tries to maximize the other side's win-set because when the win-set of a negotiator becomes larger, it makes concluding an agreement relatively easier. However, such a situation may be a disadvantage in Level I negotiations because the negotiator may lose his chance to oppose giving concessions by positing his constituents' preferences.⁴⁷ Therefore, under certain circumstances, smaller win-sets may be an advantage in negotiations. Besides the strategies of Level I

negotiators, their motives in creating or maintaining international arrangements is crucial. Therefore, the agreements that enhance the position of negotiators in domestic politics are more likely to be supported by them.

In sum, in my thesis, building my argument within the framework of Putnam's two-level approach, I will examine how factors at the international and domestic levels interact to impede agricultural trade liberalization. In the following chapter, I will examine the provisions of the URAA and the problems in the implementation process of the Agreement that impede the liberalization of agricultural trade. Therefore, in the next chapter I will look at the factors operating at Level I. In the fourth and fifth chapters, I will examine the questions of why and how the European Union and the United States resist the liberalization of international agricultural trade. In these chapters, I will analyze the domestic factors that lead to the persistence of agricultural protectionism in these two major traders of agricultural commodities in the world market. I will argue that institutional constraints and the pressures of agricultural interest groups on decision-makers have restricted the win-sets of the EU and US so as to impede the liberalization of agricultural trade. Also, in these chapters I will address the interaction between these domestic factors at Level II and the dynamics of Level I negotiations as a result of which agricultural protectionism still continues in the EU and US.

CHAPTER III

THE URUGUAY ROUND AGREEMENT ON AGRICULTURE

After discussing the theoretical framework of the thesis, in this chapter I will examine the Level I negotiations, i.e. the WTO negotiations on international agricultural trade and focus on what the Uruguay Round Agreement on Agriculture (URAA) has brought about and to what extent it has been successful in reforming international agricultural trade. In this chapter, I will also examine how the EU and the US have implemented the URAA.

The Uruguay Round Agreement on Agriculture is an important step for agricultural reform since for it initiated a rule-based system for international agricultural trade.¹ However, after its signing, the WTO members, especially the industrial countries, retained their protectionist agricultural policies even though they fulfilled their commitments in the Agreement; because the Agreement has some loopholes and provides great flexibility to the members for the application of the provisions.

As indicated in the first chapter, the provisions of the Agreement on Agriculture can be grouped under the three categories of export subsidies, market access and domestic subsidies. In this chapter, I will examine the loopholes in the Agreement and the ways through which the EU and the US have used the flexibility provided by the Agreement in the framework of these three categories.

The Modalities of Loopholes in the Agreement on Agriculture

Export Subsidies

One of the loopholes in the Agreement on Agriculture concerns export subsidies. The URAA states that only those countries that used export subsidies in the original base

period of 1986-1990 can continue to use them into the first decade of the millennium.² Hence the Agreement prevents WTO members from using export subsidies if they did not have export subsidies before the signing of the Agreement. According to Alan Swinbank this provision rewards the guilty.³

Since most developing countries did not use export subsidies before the Agreement, they cannot introduce new ones.⁴ However, those countries which have used export subsidies for their agricultural products have the opportunity to use them in specified limits. There are twenty-five such countries most of which are developed countries.⁵ The European Union is the single largest holder of rights to export subsidies among all WTO members⁶ because it accounts for 84 percent of export subsidies under the URAA disciplines.⁷ The US also uses export subsidies especially for dairy products.⁸

The provisions of the Agreement on Agriculture on export subsidies provides a very advantageous position for the members subsidizing their agricultural exports because in the base period for export subsidy reduction commitments (1986-1990) export subsidy rates were very high.⁹ Because of these high rates in the base period both the EU and the US have been able to claim to comply with WTO regulations on export subsidies without introducing significant reform in their export subsidies.¹⁰ Moreover, the Agreement on Agriculture has provided an additional benefit to the EU because the Agreement set the base period of export subsidy reduction commitments for the EU as 1991-1992 in which the level of its export subsidies was far higher than those in the standard base period.¹¹ In addition to the advantages provided by the base period, export subsidy regulations of the URAA give members the flexibility to carry over their unused export subsidy opportunities from one year to the next as long as they meet total volume and budget commitments over the whole implementation period. The EU and the US

have benefited from this provision when they have exceeded their volume ceilings for particular products in certain years.¹²

In terms of payments promoting export, the URAA addresses only export subsidies as a trade-distorting measure; however, they are not the only form of measure used for export promotion in agriculture. Export credits are among these measures. But although they have similar trade-distorting effects with direct export subsidies, subsidized export credits were not included within the reduction commitments. Export credits are the main item in the export subsidy programs of the United States. Through these programs importers of US agricultural products can get credits with low interest rates, reduced fees and longer payment periods because US commercial banks that give credit to the domestic banks of these importers have the guarantee of repayment under export credit programs. Export credits were excluded from the URAA as a result of US resistance in this issue.¹³ The exclusion of export credit programs from the URAA allowed the US to increase its agricultural commodity subsidies more as indicated by the fact that since the signing of the URAA in 1994, the United States has expanded export credit and marketing promotion programs.¹⁴

The provisions of the URAA on export subsidies did not bring about a substantial increase in the agricultural exports of developing countries. Developed countries continued to dominate international agricultural trade in the post-Uruguay Round period. A WTO secretariat paper published in 2001 indicates that developing countries have increased their agricultural exports more rapidly than the developed countries in the period of 1990-1998. However, as Chandrasekhar et al. argue, this increase is only one percent and this is a very small figure when it is considered that more than 75 percent of WTO members are developing countries and agricultural products constitute the

majority of output in these countries' foreign trade. In the period after the signing of the Agreement on Agriculture, developing country exports accounted for 36 percent of the total global agricultural exports while industrial countries accounted for 64 percent.¹⁵ A substantial increase in the agricultural exports of developing countries did not take place as was supposed during the Uruguay Round negotiations, on the contrary, the growth rates decreased to 3.4 percent in the 1990s from 4.9 percent in the previous decade.¹⁶ The crucial point here is that the agricultural exports of developing countries to industrial countries decreased during this period, and their agricultural commodities have been increasingly sold at markets of other developing countries.¹⁷ The figures above and expanding agricultural trade between developing countries indicate that the Agreement did not bring about a significant change in terms of the expansion of agricultural exports of developing countries.¹⁸

Market Access

One of the provisions of the URAA concerns the replacement of non-tariff measures and quantitative limits on imports with tariffs. This is a crucial provision for the liberalization of agricultural trade because compared to other forms of protection, tariffs are more transparent and therefore they can transmit signals from world price fluctuations to farmers better.¹⁹ Although tariffication is a significant accomplishment of the URAA,²⁰ the effect of this provision was undermined by what is called "dirty tariffication" i.e. inflating base tariffs (i.e. bound tariffs) for products in order to justify higher equivalent protection under the Agreement on Agriculture.²¹ In line with the provisions of the Agreement on Agriculture, WTO members declared initial tariff bindings according to the base period of 1986-1988. During this process, countries

declared higher rates than the actual tariff rates they had applied in this period.²² For example, the European Union declared tariff equivalents on average about 60 percent above the actual tariffs in the base period. This figure for the United States is 45 percent. Antonio Salazar Brandao gives examples of how the EU and US have protected their agricultural products through the tariffication process. He indicates that in the EU the equivalent tariff for sugar was 234 percent in the base period while the tariff declared was 297 percent. For dairy products these figures were 177 percent and 288 percent respectively. In the US, the equivalent tariff for sugar was 131 percent in the period of 1986-1988 while it declared this tariff as 197 percent. The equivalent tariff for dairy products in the US in the base period was 132 percent but the tariff declared was 144 percent.²³

In the first year of the Agreement, some tariff peaks in the EU and US were at very high rates. For example, in the EU the tariff for beef was 213 percent and for wheat it was 168 percent. In the US, the tariff for peanuts was 174 percent.²⁴ In 2000, tariff bindings for the EU and US were set as two-thirds and three quarters higher than their actual tariff equivalents for 1989-1993.²⁵ In short, as a result of dirty tariffication, in the post-Uruguay Round period both the EU and the US could retain a very high level of tariffs in agricultural commodities. Here it should be noted that not only developed countries but also developing countries declared such higher initial tariff bindings.²⁶ Many developing countries declared their initial tariff bindings more than between 50-150 percent above their actual tariffs in the base period.²⁷ In addition to inflating base tariffs, WTO members have used the difference between bound tariffs and actual tariffs to adjust their tariff rates according to the fluctuations in world commodity prices.²⁸ In sum, although tariffication is a significant step for agricultural reform, tariff rates on

agricultural products have continued to be very high in the post-Uruguay Round period because of the setting of the initial tariff bindings higher than actual tariffs and making reductions from bound rates rather than applied rates.²⁹ Therefore, tariffication did not bring about the intended results, and tariffs that have been implemented in the post-Uruguay Round period have operated as a significant protectionism mechanism.³⁰

As a result of these particular arrangements in the tariffication process, the average tariff in the world for agricultural products is still as high as 62 percent.³¹ The US whose average tariff rate for agricultural products is 12 percent has the lowest average tariff among WTO members. This figure for the EU is 30 percent.³² The average level of tariffs for agricultural products in developing countries is more than three times higher than the level in developed countries.³³ However, the comparison of average tariff rates can be misleading since it disguises variances in tariff levels and the way developed countries have used the flexibility provided by the URAA to protect their most sensitive products by restricting market access through peak tariffs. For these products they have set higher tariffs than the actual tariffs they applied in the 1986-1988 period, and in this way, they have provided greater protection for these commodities than had existed in the base period.³⁴ According to URAA provisions, developed countries must reduce their tariff rates by 36 percent.³⁵ Due to the flexibility provided by the Agreement, WTO members can determine the best way of reduction that will protect their domestic producers most. They have applied larger tariff reductions for the products for which foreign producers cannot compete with domestic producers and for those products that already have lower tariff rates, while for the “politically sensitive products”³⁶ they have applied smaller reductions in tariff rates.³⁷ Thomas Beierle indicates that both the EU and the US apply tariff peaks for their sensitive products. The

EU applies tariff peaks for grains, sugar, and dairy products while the US applies tariff peaks for sugar, peanuts, and dairy products.³⁸ The highest tariff peak in the EU is 506 percent and in the US it is 350 percent.³⁹

Besides high bound tariffs and tariff peaks there is another problem regarding the tariffication procedure under the URAA. The Agreement on Agriculture could not achieve a complete tariffication process because specific, compound, or mixed duties have continued to be used by some WTO members, including the US and the EU. Specific duties pose a problem in terms of agricultural liberalization because they hide true levels of protection. The average ad valorem tariff equivalents of these duties are higher than the average ad valorem rates.⁴⁰ For example, in the United States the average ad valorem tariff rate is 10.6 percent while the average ad valorem tariff equivalent of specific duties is 35.2 percent. In the EU, these figures are 21.6 percent and 58 percent respectively.⁴¹ The share of non-ad-valorem tariff lines in the US is 44 percent and in the EU it is 40 percent.⁴² These figures increase with the degree of processing; in the US the proportion of non-ad-valorem tariff lines is 38 percent, 43 percent and 41 percent for raw, intermediate and final agricultural products respectively. In the EU, these figures are 22 percent, 45 percent and 58 percent respectively.⁴³ Ataman Aksoy states that “in the United States almost all categories of products have non-ad-valorem rates between 30 and 60 percent of tariff lines and in the European Union some product groups, such as milk, grains, sugar, and beverages have non-ad-valorem duties in more than 90 percent of tariff lines.”⁴⁴ In sum, neither tariff peaks nor specific duties are reflected in the average tariff rates; therefore, figures for average tariff lines hide the true levels of protection especially in developed countries.

Martin Khor points out another problem concerning the tariffication process under the Agreement on Agriculture. He argues that the special safeguard provision, which can be used by countries that had been using non-tariff barriers before the Agreement and converted these barriers to tariffs, has provided an unfair advantage for these WTO members because through this provision they have gained the right to protect their farmers when imports rise above specified limits or prices fall below a particular level.⁴⁵ Special safeguard provision puts developing countries at a disadvantageous position vis-à-vis developed countries because of two reasons. Firstly, most of the developing countries did not use non-tariff barriers before the Agreement, therefore, they cannot benefit from this clause. Out of 100 WTO members that are developing countries only 22 had used non-tariff barriers that enable them to use the special safeguard provision. The remaining 16 members using the special safeguard provision are mostly developed countries.⁴⁶ Secondly, developed countries have used special safeguard provision more extensively than developing countries. Out of 6072 products that are under the special safeguard provision, developed countries use the provision against 4142 products (68.2 percent) whereas developing countries use it against 1930 products (31.8 percent).⁴⁷ Among the WTO members special safeguard provision is most heavily used by the EU and the US.⁴⁸ Thomas Beierle indicates that the EU accounted for 57 percent of all value-based safeguard actions and the US accounted for 50 percent of all price-based actions.⁴⁹ In short, developed countries, especially the US and the members of the EU benefit more from the special safeguard provision compared to developing countries, and thus the provision operates as another mechanism that prevents developing countries from protecting their farmers in the face of import surges while developed countries can.⁵⁰

Another problem in the provisions of the URAA concerns “tariff escalation” i.e. the increase in tariffs with the level of processing of agricultural products.⁵¹ Parthapratim Pal argues that tariff escalation operates as a trade barrier because it discourages exports of value added products.⁵² This is a significant issue for developing countries because tariff escalation reduces their chances of export-oriented growth through product diversification into value-added products as it leads to the continuation of the dependence of these countries on exports of primary products.⁵³ In the European Union, tariff rates increase as the level of processing of products increases. The tariff rate for intermediate products is 16.6 percent and for final products 24.3 percent while the tariff rates for raw products is 13.2 percent. In the United States, tariff rates increase from 5.5 percent for raw products to 7.1 and 12.6 for intermediate and final products.⁵⁴

In sum, high bound tariffs, peak tariffs, continuation of specific duties, the special safeguard provision and tariff escalation are significant obstacles to the progress of the agricultural sector of developing countries. As a World Bank study reports, the solution of the problems concerning agricultural tariffs would bring about the largest gains compared to other instruments of agricultural protection.⁵⁵

Another application in the Agreement on Agriculture that is problematic in terms of increasing market access of WTO members is the tariff rate quotas (TRQs). Tariff rate quotas were introduced to provide minimum market access for agricultural exports. They have a two-tiered tariff system that includes a low in-quota rate applied to the quantity that meet minimum access requirement and a higher tariff applied to the quantity of imports exceeding the quota.⁵⁶ The use of TRQs has not brought about the expected increase in market access because of a number of problems in their implementation. Firstly, as Parthapratim Pal argues, the fill rate of tariff quotas (i.e.

percentage of the in-quota amount) remained very low. A WTO study suggesting that the average fill rate of TRQs is less than two-thirds and is declining⁵⁷ supports Pal's argument. According to Pal, the low fill rates of TRQs are a result of the high in-quota tariff rates. He maintains that most TRQs opened at low or zero tariffs; however, some of them were so high that they prevented market access for exporting countries. Secondly, Pal indicates that the tariff quota rates were classified under broad product groups; therefore, the URAA prevented the opening up of minimum access in some sub-products within this broad product category. Thirdly, he points to the lack of transparency in the application of TRQs that may lead to discrimination in their allocation between source countries and domestic importers.⁵⁸ Alex McCalla indicates another problem regarding the implementation of TRQs, stating that the use of TRQs has multiplied because WTO members have discovered that if they set the out-of-quota tariff high enough, TRQs operate as a quota on imports.⁵⁹

A WTO study on tariff rate quotas illustrates how they operate as a barrier for market access by indicating that the average in-quota tariff is 63 percent and over-quota tariff is 128 percent. The high level of tariff rates for products under tariff rate quotas are highlighted when it is considered that the average in-quota tariff is higher than the average tariff in the world for agricultural products which is 62 percent, and tariff rate quotas were introduced to ensure minimum access requirements for agricultural exports of WTO members. Although the Agreement states that low or minimal tariff rates must be used for in-quota tariffs, in the absence of a specified quantification, countries interpreted the article in a way to restrict the market access of importing countries.⁶⁰ Since the EU and the US widely used non-tariff barriers for agricultural imports; after the Agreement on Agriculture came into effect, they started to use TRQs to protect their

domestic producers.⁶¹ In the European Union, 38 percent of domestic agricultural products are protected through TRQs⁶² and the average over-quota tariffs are 463 percent higher than average in-quota tariff rates.⁶³ In the United States, TRQs are used for 26 percent of the total output⁶⁴ and over-quota tariffs are 190 percent higher than average in-quota tariff rates.⁶⁵ As shown by these figures, in the EU and US tariff rate quotas do not operate as a mechanism to provide minimum access for agricultural exports of other WTO members, but rather as a tool for continuing agricultural protectionism.

Domestic Subsidies

It is generally accepted that agricultural subsidies based on production have distorting effects both on production and trade since they encourage overproduction and thereby depress world prices undermining the comparative advantage of countries that can produce cheaply without subsidization. In the Uruguay Round Agreement on Agriculture, domestic supports are distinguished according to these distorting effects and are classified under three categories which are identified by “boxes”.⁶⁶

The first type of subsidies which are accepted to be distorting trade and production are grouped under the “amber box”. Subsidies in this category include payments to farmers that are directly linked to prices or quantities, such as market price supports, input subsidies, and direct per-unit payments.⁶⁷ Expenditures of WTO members for amber box subsidies are expressed in terms of a total Aggregate Measure of Support (AMS) which is subject to reduction commitments.⁶⁸ According to the URAA, developed countries should reduce their total amber box subsidies by 20 percent

over a six-year period (1995-2001). For developing countries the requirement is to reduce their amber box subsidies by 13 percent over a ten-year period (1995-2005).⁶⁹

The second group of subsidies are placed under the “blue box” which includes direct payments that are directly linked to acreage or animal numbers and are given to farmers under programs that aim to limit production through quotas or set-aside policies (i.e. policies which require farmers to set-aside a part of their land).⁷⁰ According to the Agreement on Agriculture, blue box payments are accepted as partially decoupled subsidies.⁷¹

The third category of subsidies which are considered to be non-trade distorting or causing minimal distortion are classified under the “green box”.⁷² According to the URAA provisions, green box measures must be paid out of the government budget, not levied from consumers, and they must not have the effects of providing a price support for the producer. In the context of the URAA, there are two types of green box subsidies. The first one is decoupled subsidies that do not have any relation with current production levels or prices. The second type includes subsidies given for pest and disease control, agricultural research, extension services, irrigation, and market infrastructure.⁷³

The US is one of the countries that has started to shift its agricultural program substantially towards green box subsidies by separating domestic supports from current production, prices, acreage and per-unit output.⁷⁴ Firstly, in 1985 the Food Security Act decoupled the yields used to calculate deficiency payments by shifting the base of support from current yields to historical yields. The Food Security Act fixed payment yields by giving payments to farmers on the basis of fixed output per acre regardless of the actual amount of their produce.⁷⁵ In 1990, 15 percent of the base acres for major

crops were decoupled by withdrawing deficiency payments, preserving base acreage and allowing the planting of alternate crops on these acres. With the Freedom to Farm Act (FAIR) of 1996, the decoupling of subsidies continued as the Bill eliminated target prices and replaced them with decoupled historical entitlements which are called production flexibility contract (PFCs) payments. PFCs were supposed to end by 2002.⁷⁶ With the FAIR Act, the US turned blue box deficiency payments (totaling \$7 billion in 1995) into green box decoupled payments.⁷⁷ However, this process of decoupling was reversed in 1998 as the US Congress introduced two years' worth of emergency Market Loss Assistance (MLA) payments as a response to decline in agricultural commodity prices and farm incomes.⁷⁸ The MLA payments that amounted to \$2.9 billion in 1998; however, they were increased to \$5.5 billion in the following years.⁷⁹ Another response of the US government to declining commodity prices was the introduction of loan deficiency payments which offset the taking of blue box deficiency payments into the green box.⁸⁰ In 2002, the United States introduced a new farm bill, the Farm Security and Rural Investment Act, which extended production flexibility contracts and included new crops in PFCs, made emergency payments permanent by turning them into countercyclical payments, allowed updating of base acres and payment yields, and increased price supports for coupled subsidy program.⁸¹ These provisions of the 2002 Farm Bill run strongly counter to the efforts for international agricultural reform due to certain reasons. To begin with, it extended US domestic support program by prolonging production flexibility contracts and making ad hoc emergency payments permanent by turning them into countercyclical payments. Secondly, it reversed the decoupling process of the US subsidies because it re-coupled payments by allowing updating of base acres and payment yields. Thirdly, it authorized support to the agricultural sector

totaling \$180 billion for a ten-year period and therefore increased the level of domestic support in the US substantially.⁸² Critics point out that this increase in subsidy payments has doubled the support to US agriculture for the ten year period following the introduction of the Bill.⁸³ Lastly, the crops for which the subsidies were increased are among the crops that the US has a significant share in world export markets. Therefore, the subsidy increases in the Bill have substantially affected the prices of products in world markets.⁸⁴

While the US shifted its domestic support programs mainly towards green box subsidies, the EU rearranged its subsidies mostly in the form of blue box payments. Indeed, during the Uruguay Round blue box payments were mainly supported by the European Union. The EU and other developed countries argued that their reduction commitments in amber box subsidies would have adverse effects on their farmers and supported the creation of the blue box in order to compensate for these effects.⁸⁵ Bart Kerremans argues that blue box “is a box specifically created for the EU, as it only contains EU direct payments to farmers, a support measure that emerged as a consequence of the 1992 CAP reform”.⁸⁶

In the framework of 1992 CAP reform, also called the MacSharry reforms, the European Union started to decouple its subsidies. The 1992 CAP reform reduced price supports for products like cereal, oilseed, protein crops, beef and veal that were provided by import levies or export subsidies, and in order to compensate for these reductions it introduced direct payments to farmers, which were classified as blue box subsidies.⁸⁷ Through the MacSharry reforms the EU reduced price supports from 90 percent to 37 percent and increased direct payments from 9.3 percent to 59 percent. As indicated by these figures, the European Union substantially shifted its domestic support programs

into blue box payments. The next reform of the CAP was carried out under Agenda 2000, which was accepted by the European Summit in Berlin in March 1999.⁸⁸ Agenda 2000 continued the decoupling process by further reducing price supports, increasing direct payments and extending their scope for all products.⁸⁹ Under the Agenda 2000 reforms price supports were reduced to 21.3 percent and direct payments were increased to 68.2 percent. One of the significant reforms under Agenda 2000 was the growing emphasis on rural development that included policies such as increasing the income and life standards of farmers, introducing education programs for farmers to increase their concern for the protection of the environment, and supporting investments on the processing and marketing of farm products. Agenda 2000 designated rural development as the second pillar of the CAP and increased subsidies for rural development to 10.5 percent from its level of 4.1 percent under the MacSharry reforms.⁹⁰ The last reform of the CAP that was introduced in June 2003 strengthened the second pillar of the Common Agricultural Policy on rural development by introducing new policies such as the modulation mechanism. The 2003 CAP reform increased the resources for rural development through the “modulation” mechanism that is based upon transferring the resources from the first pillar to the second pillar.⁹¹ Through these successive reforms the EU shifted most of its domestic supports into the blue box and therefore it could retain the existing amount of subsidies. However, when the Union faced strong criticism from other WTO members during the Doha Round negotiations for continuing its protectionist agricultural policies through the blue box category, it began to shift its subsidies into the green box through the new policies under the 2003 CAP reform. In the framework of this reform, the EU introduced a “single payment scheme” for each farm through which every farm would be allocated a single decoupled direct payment.⁹² The

European Union continued its policy of shifting subsidies from the blue box into the green box when preparing its financial framework covering the period 2007-2013. According to this framework, announced in December 2005, the budget of the Common Agricultural Policy will be raised to 49 billion euro by 2013.⁹³ In addition to increasing the budget of the CAP, the financial perspective of the EU preserves export subsidies and common market organizations in a number of products such as sugar and dairy products which are highly contested in the WTO negotiations.⁹⁴ What this new financial framework mainly brings about is the decoupling of the majority of direct payments to farmers from production and so the shifting of these subsidies out of the blue box and into the green box.⁹⁵ The crucial point here is that although the EU has transferred its subsidies from the blue box into the green box, this policy does not change the nature of EU's domestic support programs because the Union continues to heavily subsidize its farmers in a way that contradicts with the goals of negotiations on agricultural trade liberalization. In sum, the CAP reforms and the new financial framework of the EU have not brought about a substantial change that reduces the amount of domestic support; rather, they have only led to the reclassification of the subsidies in a way that shows these subsidies as complying with the WTO rules. In this way, the EU has not only kept the current amount of its domestic subsidies, but can also claim that it has complied with WTO disciplines on domestic support programs.

Implications of the URAA Provisions on Domestic Subsidies

In the URAA, the general principle with respect to domestic support measures is that all subsidies linked to production must be reduced or kept within defined minimal (*de minimis*) levels. The *de minimis* level allows developed countries to keep their amber

box subsidies up to 5 percent of the value of their agricultural production. This figure for developing countries is up to 10 percent.⁹⁶

In the Agreement on Agriculture, blue box payments were exempted from the *de minimis* rule even though subsidies in this category have links to production.⁹⁷ The main argument for this exemption was that since blue box subsidies are partially decoupled from production, they do not distort trade. However, as Alex McCalla states, “payments based on historical area planted, or historic animal inventories, have impacts on wealth positions of farmers and clearly reduce incentives to leave agriculture”.⁹⁸ According to an OECD study, blue box payments may distort production “because of input substitution and because they may induce higher headage or acreage than would otherwise have occurred.”⁹⁹ This study also indicates that payments under the production-limiting programs, which compose a part of the blue box subsidies, may not be effective enough because under these programs farmers set-aside their least-productive land, thereby reducing the effect of set-aside policies on production. Moreover, in order to be eligible for blue box subsidies, farmers must stay in production. Lastly, the study points out that payments for blue box subsidies may be directly dependent on production if the volume does not exceed 85 percent of production in the base period or based on fixed area and yields.¹⁰⁰ These factors in the implementation of blue box subsidies indicate that they may influence production decisions of farmers; therefore, their exemption from AMS reduction commitments cannot be justified on the grounds of their non-distorting effects.

In a World Bank study published in 2005, John Baffes and Harry de Gorter also indicate that blue box payments in general and subsidies of the EU under production-limiting programs in particular may influence production. They suggest two reasons for

this. Firstly, they argue that the direct payments of the EU affect the production decisions of farmers because in order to be eligible for these payments they have to stay in production. Secondly, they point to the calculation of area payments according to aggregate, fixed areas set at the national or regional level as the other reason for blue box subsidies to influence agricultural production. According to the EU regulations, if these base areas are exceeded, per-unit subsidy for all farmers producing on that base area is decreased. This particular method of calculation leads European farmers to overproduce in order to maximize the amount of payment they will get or to protect their subsidy amount against the overproduction of other farmers. This implies that area payments of the EU significantly affect the production decisions of European farmers leading them to overproduce. Hence they do not accomplish the intended result of limiting production.¹⁰¹ In short, direct subsidies of the EU under the blue box category influence the production decisions of farmers; thus they can distort agricultural trade. A similar result is also observed in headage payments under production limiting programs because farmers can have more animals than needed to receive payments. Also, farmers have an incentive to increase the number of their animals if they have animals below the maximum amount allowed by production limiting programs.¹⁰² In sum, in spite of the argument proposed by those WTO members supporting the blue box category that subsidies in this category do not distort trade, blue box subsidies such as payments under the production limiting programs affect agricultural output levels and thus distort trade.

In addition to blue box payments, the Agreement on Agriculture excluded green box subsidies from AMS reduction commitments since it was supposed that being decoupled from production, these subsidies do not distort trade or cause minimal distortion.¹⁰³ However, critics point out that no subsidy can be fully decoupled from

production;¹⁰⁴ therefore all subsidies, including the green box subsidies, can adversely affect agricultural production and trade.

Martin Khor explains the trade distorting effects of blue and green box subsidies through a comparative model. In Model A, he uses an amber box subsidy such as price support and in Model B, a blue/green box subsidy in the form of a direct payment to a farmer. In both models, world price and cost of production are assumed to be the same. In Model A, price support increases the domestic price above the world price and therefore pulls up the farmer's revenue above the production cost. In this way, price support makes the farm economically viable although its production cost is above the world price. In Model A, the farmer is given an export subsidy which enables him to export a part of his produce at a price equivalent to the world price. Khor indicates that in this model the domestic and export subsidies are clearly market distorting. Model B does not include a price support or tariff protection; therefore, domestic price in this model is the same with or lower than the world price. In this model, the farmer gets a price lower than his cost of production but he is given a direct payment which enables him to have the same revenue level in Model A. Hence as in Model A, the farm in Model B becomes economically viable. Also, as in Model A, the farmer in Model B can export a part of his produce since he can sell it at a price below the world price. In this case, the farmer does not need an export subsidy to export his product since subsidy in the form of direct payment enables him to sell his product at a price lower than the world price. The country in Model B fulfills its commitments in the URAA as it does not use the export subsidies and trade distorting subsidies in the amber box but uses subsidies in the green or blue box. However, as Martin Khor indicates, "the effects of Model B subsidies are effectively also market-distorting in that they enable the farm to be viable

although it is inefficient, and moreover it enables the farm to dump its produce onto other countries even though it does not receive export subsidies.”¹⁰⁵ Due to this effect of direct subsidies Ataman Aksoy refers to these subsidies as “implicit export subsidies”.¹⁰⁶ This is exactly what the EU does since by shifting its domestic support programs towards direct subsidies it enables its farmers to receive a price closer to world prices so that they can sell their products at low prices without needing export subsidies.¹⁰⁷ Therefore, although it did not give up easily, during the WTO Hong Kong ministerial in December 2005, the European Union accepted the proposal for eliminating all export subsidies by 2013.¹⁰⁸

In sum, the exemption of blue and green box subsidies from reduction commitments leads to a problem in terms of agricultural trade liberalization because they can potentially distort agricultural production and trade.

In addition to their potential distorting effects, the exemption of blue and green box subsidies has another crucial impact for agricultural trade liberalization reform. Due to this exemption, the AMS reductions on WTO members, especially the reductions of the US and EU are offset, because countries choose to shift their domestic subsidies from the amber box to the blue or green boxes rather than actually reducing their subsidy levels. Hence, although decoupling of domestic subsidies has been presented as a solution to the distortion of agricultural trade and production, the implementation process of the URAA does not indicate such an outcome. Rather, it signals that overproduction and depressed world prices of agricultural commodities have continued.

Since 1994, the United States and the European Union have reduced their amber box subsidies but at the same time they have raised their subsidies under the blue and green boxes. As a result, today the total amount of subsidies in these countries is higher

than the amount in the base period 1986-1988.¹⁰⁹ The crucial point here is that even though they have increased total subsidy levels, because of the exemption cited above, both the US and the EU can claim that they comply with the WTO disciplines on domestic subsidies. Although its total amount of domestic support has increased from \$83 billion in the base period to over \$100 billion in 1998,¹¹⁰ the EU can claim to be complying with WTO regulations on domestic subsidies because due to the MacSharry reforms of 1992 the EU has significantly decreased its amber box subsidies.¹¹¹ Because of a similar process of reduction in the amount of amber box subsidies, the US makes the same claim even though its subsidies increased to over \$60 billion in 1998 from \$50 billion in the base period.¹¹² In short, the restriction of reduction commitments to amber box subsidies enabled the US and EU to comply with WTO regulations without introducing significant reforms in their domestic support programs.

In addition to shifting subsidies from the amber box into the blue or green boxes, the way the base period levels of AMS reductions were calculated operates as another factor that allows the EU and US to meet their AMS reduction commitments without introducing substantial reform in their domestic support programs but claiming to be complying with WTO regulations. Initially, blue box subsidies together with amber box payments were included in the calculation of AMS base period levels; however, later blue box subsidies were exempted from reduction commitments but they were not discounted from the AMS baseline.¹¹³ One example of this is the blue box deficiency payments of the United States. The AMS baseline of the US included blue box deficiency payments that amounted to \$10 billion; however when blue box payments were exempted from AMS reduction commitments, deficiency payments were protected from any reduction obligation.¹¹⁴

Besides the problem concerning the exemption of blue and green box subsidies from AMS reduction commitments, another problem related to the commitments on domestic support is that reductions are not product-specific. This provides WTO members the opportunity to arrange reductions according to the interests of their domestic producers. Didier Chambovey argues that this makes it possible for WTO members to increase support for individual products while still meeting their legal obligations under the Agreement.¹¹⁵ The Draft Final Act of URAA in December 1991 suggested AMS reductions to be made on a product-specific basis. However, the Blair House Accord signed between the EU and the US in 1992 replaced this article with a single aggregate measure of support for all agricultural products in a country.¹¹⁶

The OECD figures on producer subsidy equivalent (PSE) for individual products in the EU and US support Chambovey's argument. OECD studies report that both in the European Union and the United States the PSE of sensitive products are substantially higher than the average PSE for all products. In the EU, the average rate of producer subsidy equivalent is 34 percent whereas it rises up to 70 percent for products like beef, sugar, sheepmeat, and wheat.¹¹⁷ The average rate of PSE in the US is 18 percent while for products such as sugar, milk, rice and wheat it rises up to 60 percent.¹¹⁸ According to an OECD report, the PSE for the EU rose from € 92.3 billion in the 1986-1988 period to € 100.2 billion in 2004.¹¹⁹ For the US the same figures were \$36.4 billion and \$46.5 billion respectively.¹²⁰

In addition to amber box reductions, the *de minimis* rule also operates on this non-product specific subsidy reduction instead of reductions according to specific products. Within the framework of *de minimis* rule, the URAA exempts non-product specific amber box subsidies of developed countries if their value is less than 5 percent

of the value of total agricultural production. The corresponding level for developing countries is 10 percent.¹²¹ The US benefited from this rule for its Market Loss Assistance (MLA) payments. The US government declared these payments as non-product specific amber box payments. Since in this way their amount remained below the 5 percent of the value of total agricultural production, they could be exempted from reduction commitments.¹²²

The rearrangement of subsidies under different names and categories and the increase in their total amount underline the ongoing protectionist support policies in the EU and US. The crucial point in the classification of the subsidies is that WTO members, especially the developed countries who have adequate resources, have been able to keep their subsidies the same or even to increase them by rearranging their domestic support programs. Ataman Aksoy highlights the adverse effects of these policies for the liberalization of agricultural trade by indicating that even if all agricultural tariffs and export subsidies were eliminated, domestic subsidies would continue to provide developed country farmers the opportunity to export their products at prices lower than their cost of production and thereby tend to give them an unfair advantage in international agricultural trade vis-à-vis developing country farmers whose governments are not able to bear the cost of these subsidies.¹²³

Another provision of the Agreement on Agriculture that creates a problem for the liberalization of agriculture is the Peace Clause (Article 13 of the Agreement). The peace clause states that:

permissible domestic subsidies cannot be subject to countervailing duties during the implementation period, and that other (“amber”) domestic support and export subsidies are subject to countervailing action only if a determination of injury or threat thereof is established as per the Agreement on Subsidies and Countervailing Measures.¹²⁴

For the WTO members who have substantially used domestic subsidies the peace clause constituted an escape clause because it prevented the full integration of agriculture into the WTO disciplines. Therefore, up until its expiry in 2003, the peace clause provided a shelter for domestic subsidies even in cases that distorted production and trade because “subsidies exempted from reduction and used mostly by developed countries were immune from counteraction in the WTO; they cannot be subjected to the countervailing duty process or the normal dispute settlement process.”¹²⁵ Hence these countries argued for a renewal of the peace clause.¹²⁶ This was crucial for them because as a result of the expiry of the peace clause, all agricultural subsidies, even green box subsidies which were supposed to be non-trade distorting according to the Agreement on Agriculture would become actionable for purposes of countervailing duties and for being challenged under the WTO dispute settlement mechanism if they lead to adverse effects such as injury to a domestic industry, nullification or impairment of benefits of tariff concessions under the URAA, price depression, or displacement of export of a similar product into the market of the subsidizing country or into a third country market.¹²⁷

For example without the peace clause, export subsidies of the EU on processed food products could be challenged as they breach GATT Article XVI, limiting export subsidies to primary products. Also, area payments, on arable crops that are subsequently exported, could be said to violate Article 10 of the URAA that seeks to prevent circumvention of the export subsidy constraints.¹²⁸

According to Didier Chambovey, the right of WTO members to challenge a subsidy of another member varies greatly across the different categories of subsidies. Chambovey argues that “opting for green box support appears to be the best way to

lessen the likelihood of violation or non-violation complaints based on the trade effects of a subsidy.”¹²⁹ Because when compared with other subsidies - amber box, blue box and export subsidies - it may be more difficult to prove the distorting effects of green box subsidies on prices and market shares; since the relation of green box subsidies to production and prices are less apparent than other subsidies. Therefore, due to the complexity of proving the damage caused by green box subsidies, the chances of a WTO panel deciding the removal of such subsidies is very low.¹³⁰ WTO regulations put the burden of proving the adverse effects of the subsidy on the complaining party which therefore has to face not only a subsidy damaging its agricultural sector but also a very complicated legal process for the removal of this damage. Therefore, as developed countries shift their domestic support programs towards green box subsidies, it becomes more difficult to challenge the agricultural support programs of these countries under the WTO dispute settlement body and chances for further reform in agricultural trade through the reduction of domestic subsidies diminish.

Another problem that may slow down the reform process in international agricultural trade is the attempts of some WTO member countries to include the multifunctional role of agriculture in the WTO disciplines. Those WTO members advocating the multifunctional role of agriculture argue that besides food production and trade agriculture fulfills a variety of other functions such as environmental protection, preservation of the rural landscapes, food safety and quality, and animal welfare.¹³¹ In addition, the multifunctional role of agriculture involves policies addressing the quality of life in rural areas, poverty alleviation, and tourism.¹³²

The WTO members advocating the inclusion of multifunctionality into the Agreement on Agriculture use Article 20 of the Agreement as the basis of their argument. Article 20 states that:

recognizing that the long-term objective of substantial progressive reductions in support and protection resulting in fundamental reform is an ongoing process, members agree that negotiations for continuing the process will be initiated one year before the end of the implementation period, taking into account the experience to that date from implementing the reduction commitments, the effects of the reduction commitments on world trade in agriculture, non-trade concerns, special and differential treatment to developing country members, and the objective to establish a fair and market-oriented agricultural trading system, and the other objectives and concerns mentioned in the preamble to this Agreement; and what further commitments are necessary to achieve the above mentioned long-term objectives.¹³³

The WTO members, in particular the European Union, Norway, Poland, Japan and South Korea advocated that the statement in Article 20 about the inclusion of non-trade concerns into the next round of negotiations provides a basis for them to take the multifunctionality of agriculture into the agenda of negotiations.¹³⁴

The inclusion of the multifunctional role of agriculture into the WTO disciplines is problematic for international agricultural reform because it can be used by WTO members as a pretext for domestic subsidy programs and other protectionist policies. During the Doha Round meetings the idea of making multifunctionality one of the premises of the final agreement on agriculture was mainly promoted by the European Union.¹³⁵ When introducing the Agenda 2000 reforms in 1999, the EU Agriculture Council declared multifunctionality as one of the main aspects of what they called the “European Model of Agriculture” and stated that in the next round of negotiations (i.e. Doha Round) the European Union would take this model as the basis of its position in agriculture negotiations.¹³⁶ Later, in a document published September 2001, the

European Commission once again stressed the centrality of multifunctionality in the EU's position in the WTO negotiations on agriculture. In this document, the Commission stated that "we do not say "no" to further cuts in the domestic farm support. We say "yes" provided we can keep the kind of aids which enable our agriculture to serve the demands of our society. We therefore want to ensure that non-trade issues such as the protection of the environment, food safety and quality are addressed."¹³⁷ The crucial point about the multifunctionality idea lies in this statement of the Commission because having built the EU's position in the Doha Round on this argument; the Commission indicated that "on domestic support, the EU proposes a further reduction in support provided that the concept of blue box and green boxes continues".¹³⁸ During the Doha Round negotiations on agriculture, the European Union strongly pushed for the continuation of these two categories of subsidies and their exemption from reduction commitments by arguing that through these subsidies the Union contributes to agriculture so as to meet the demands of society that perceives agriculture not only as food production but in its multifunctional role of maintaining environment, rural life, biodiversity and other public goods.¹³⁹ The insistence of the European Union on multifunctionality and the continuation of blue and green boxes provoked intense controversies among the WTO members because these initiatives were perceived as a smokescreen used by the EU to shield its domestic support programs against reduction commitments.¹⁴⁰ Therefore, these initiatives of the EU were one of the reasons for the failure of the WTO Seattle ministerial in 1999.¹⁴¹

As a result of the failure of the Seattle ministerial and the threat of developing countries to block the beginning of a new round on trade negotiations, "the Doha Round was declared to be a developmental round with a special concern for the interests of

developing countries”.¹⁴² However, as the Uruguay Round, the agenda of Doha Round negotiations were predominantly shaped along the objectives and interests of developed countries. This was one of the reasons for the collapse of the Cancun ministerial meeting in September 2003, because the EU and the US once more refused to make the concessions demanded by a group of 20 developing countries including Brazil, China, India and South Africa. In line with the Doha development agenda, these developing countries called for an end to agricultural export subsidies and a decision on the limit for the direct payments.¹⁴³ However, the EU and the US did not accept these proposals and as a result the ministerial text did not address the concerns of developing countries.¹⁴⁴ Consequently, the Cancun meeting collapsed as developing countries resisted continuing the negotiations upon perceiving that the meeting would not bring out the goals indicated in the Doha development agenda. To sum up, in the Cancun meeting the negotiations deviated from the goal of focusing on development issues and as a result, the concerns of developing countries were neglected. This was the case also in the last WTO ministerial in Hong Kong in December 2005. The only provision in the Hong Kong Ministerial Declaration that can be evaluated as a step toward agricultural liberalization is the elimination of all export subsidies until 2013.¹⁴⁵ On the other hand, the declaration does not adequately address the problem of domestic subsidies “both in terms of cutting the amount spent and closing down loopholes that enable countries to exempt their subsidies via the green box”.¹⁴⁶ In addition, although the declaration includes provisions for strengthening disciplines on blue box subsidies, the wording on this issue is ambiguous. In terms of market access, the declaration set forth only a few opportunities for the increased access of developing countries to industrial country markets.¹⁴⁷

In sum, the Uruguay Round Agreement on Agriculture is an important step for the liberalization of international agricultural trade since for the first time in the history of international trade talks, agriculture has been brought under the WTO disciplines through this comprehensive agreement. However, the URAA has not brought about the substantial policy changes that would liberalize global agricultural trade because industrial countries, particularly the two major players in world agricultural trade the European Union and the United States, shaped the provisions of the Agreement in such a way that they could find the opportunity to continue their protectionist agricultural policies even though they fulfilled their obligations under the Agreement. As a result, the Uruguay Round Agreement on Agriculture could not introduce the necessary policy changes for an international agricultural reform. The Doha Round negotiations up until now have not achieved this goal either. Although the Doha Round was launched as a “developmental round”, the agenda of the industrial countries, especially of the EU and US dominated the negotiations and as a result, the documents of the Round were shaped according to the concerns and interests of these countries. Here comes the question of why these countries followed these policies during the WTO negotiations. The positions of the European Union and the United States in both rounds were strongly shaped by their domestic constraints. In this chapter, I examined how the EU and the US acted in the WTO negotiations, i.e. Level I negotiations. In the following two chapters, I will turn to Level II and examine the question above in the light of domestic constraints in the contexts of the EU and US.

CHAPTER IV**THE AGRICULTURAL POLICIES OF THE EUROPEAN UNION**

Having examined the provisions of the URAA and the problems related to the implementation process of the Agreement at Level I, in this chapter I will examine the reasons impeding agricultural liberalization in the European Union.

Putnam indicates that “my argument is phrased in terms of only two levels. However, many institutional arrangements require several levels of ratification, thus multiplying the complexity of win-set analysis.”¹ The particular institutional structure of the European Union is one these institutional arrangements that require several levels of ratification. In the EU, besides the domestic level of each member state, there is the supranational level as an additional platform of bargaining for the ratification of an international agreement. Since the bargaining process at this level significantly shapes the win-set of the EU and affects the prospects for international cooperation, in my thesis I will examine the policy process at the EU level as a different level of game. Therefore, in this chapter, I will use a three-level game model for the EU considering the WTO negotiations as Level I, the EU level as Level II and the domestic level of the member states as Level III.

In this chapter, I will examine how dynamics at these three levels interact to impede liberalization in international agricultural trade. I will argue that although the EU has signed the Uruguay Round Agreement on Agriculture and has claimed to fulfill its obligations under the Agreement, it continues protectionist policies in agriculture. There are two main reasons for the continuation of agricultural protectionism in the EU. The first reason concerns the institutional structure of the EU. The particular institutional structure and bargaining process of a given international agreement significantly reduce

the capacity of the EU to carry out the crucial reforms necessary for agricultural liberalization. The second reason is related to Level III, the domestic political arena of the member states. Because of the strong pressure of agricultural interest groups on the governments of some member states, policies that will liberalize European agriculture cannot be introduced.

According to Robert Putnam, one of the factors that affects the size of win-sets is the institutions at Level II and in particular the process through which an agreement is ratified. Helen Milner argues that the institutional process of accepting an international agreement plays an important role in terms of international cooperation because “who controls these processes affects the terms and probability of agreement”.² This argument holds for the European Union because the institutional process through which international agreements are ratified significantly affects the position of the EU vis-à-vis these agreements and thus the terms of the agreements. In the European Union, as in other policy areas, there is a complex pattern of policymaking in agricultural issues. In this present discussion, I will examine three main reasons related to this policymaking process: the need for the EU to act as a unitary actor in international negotiations, unanimous voting in the Council of Agriculture Ministers in agricultural issues, and the restricted autonomy of the negotiators. This particular set of arrangements in the institutional process of the EU brings about many difficulties during the negotiation and ratification processes of the agreements about agriculture and therefore restricts the win-set of the EU.

To begin with, agriculture is one of the policy areas that is under the first pillar of the Union. There are two aspects of the policies under the first pillar of the European Union that are crucial for the present discussion. Firstly, these policies are characterized

by a transfer of sovereignty from the member states to the EU Commission; therefore for the policies under the first pillar of the EU, the Commission acts on behalf of the member states. Secondly, since in the first pillar policies the member states cannot act in their own name, they have to determine a common position in these policy areas and act with a single voice.³ This is especially critical for international negotiations because in order to have a strong bargaining position in international negotiations the EU needs to determine a firm position during negotiations and stick to this position so as to act as a unitary actor.⁴ Since providing a consensus among member states on the terms of a given agreement and creating a firm negotiating position is a difficult process for the EU, this requirement restricts the negotiating flexibility of the Union and therefore diminishes the size of the win-set of the EU. The requirement to act as a united front in international negotiations is further complicated by a second factor related to the institutional process of the EU.

The second factor that reduces the size of the EU's win-set during the WTO negotiations on agricultural liberalization and thereby makes the approval of an agreement difficult is related to the rules through which these agreements are ratified. In agricultural issues, unanimous voting in the Council of Agriculture Ministers is institutionalized as a result of the Empty Chair Crisis and Luxembourg compromise⁵ although qualified majority voting can be used as prescribed in the Treaty of Rome.⁶ The requirement that all member states be in agreement for the ratification of an international agreement renders the approval of an agreement on agricultural issues difficult because providing a consensus among the EU member states in such issues is a very complicated process due to their different positions vis-à-vis the Common Agricultural Policy.

In the European Union, there is a complex pattern in the positions of the member states vis-à-vis the reform of the CAP. France strongly opposes any reform initiative that might reduce CAP funds or restrict protectionist policies in agriculture because it is the biggest beneficiary of the CAP funds.⁷ According to the Commission report presented on 22 September 2005, with 21.6 percent France receives the largest share in EU agriculture expenditures.⁸ Belgium and Ireland support the French stance towards reforms. Italy accepts certain reforms but resists reforms concerning the products from the Mediterranean region. Other Mediterranean states, Portugal and Spain, generally maintain a neutral position towards agricultural liberalization and may change their position according to the pay-offs they receive. Britain has been the leading member state in the EU in supporting the CAP reforms because it has a very small and relatively productive agricultural sector.⁹ Sweden also supports the reform initiatives.¹⁰ Holland and Denmark have very competitive, export-oriented agricultural sectors; therefore, they are among the member states that support the liberalization of agriculture. The position of Germany towards the CAP reforms is somewhere in between that of the supporters and opponents of reforms. During the Uruguay Round negotiations Germany's position towards CAP reforms mainly resulted from the divisions in the government; while the German Economics Ministry supported an agricultural reform to overcome the deadlock in the negotiations, the Agriculture Ministry resisted reforms.¹¹ In sum, the EU member states have different attitudes toward the CAP reforms and toward the international agreements that might introduce changes in the agricultural policies of the Union. Reconciling these diverse positions of the member states has appeared as a significant challenge both during the course of CAP reforms and WTO negotiations. The

unanimous voting in the Council for agricultural issues further complicated this reconciliation process as during the negotiations the EU had to overcome veto threats.

The third factor that reduces the size of the EU's win-set is the restricted autonomy of the negotiators. In the WTO meetings, the Commission carries out the negotiations on behalf of the EU members within the framework of the mandate determined by the member states. The negotiating mandate of the Commission is called "negotiating guidelines" which "are the broad indicators by the EU member states to the Commission about what issues should be on the negotiating table and how far EU member states are willing to go".¹² These negotiating guidelines are determined by the Article 133 Committee which is a forum where member state representatives discuss international trade issues. The Article 133 Committee regularly meets with the Commission to discuss the progress in international negotiations.¹³ Therefore, although the Commission has the authority to make proposals in international negotiations, it is constrained in its policy behaviour because these proposals are regularly discussed in the Article 133 Committee. Besides this close monitoring of the Commission's negotiating strategy, the Article 133 of the Amsterdam Treaty gives the Council the authority to issue directives about negotiations.¹⁴ Hence, although the Commission carries out the international negotiations, it is closely monitored and directed by the member states.¹⁵ In short, negotiators cannot decide to accept or reject certain proposals without consulting the member states. Under the circumstances in which they accept certain proposals, they risk that these proposals may be rejected by the member states because in the European Union there is a separation of the negotiating powers and ratification authority. While the Commission is authorized to carry out the negotiations for international agreements, the Council has the authority to ratify these agreements. Thus any member state can veto

an agreement if it does not suit its interests. In this respect, the separation of negotiating powers and ratification authority gives those member states that support the continuation of protectionist measures in agriculture the opportunity to block initiatives for agricultural liberalization. Hence in cases where the Commission intends to introduce reforms for liberalizing the agricultural trade regime of the EU or to negotiate international agreements that would have the same result, it lacks the authority for such an initiative. This significantly restricts the win-set of the EU. Kennet Lynggaard indicates that “even proposals that start out as attempts to generate genuine alterations of the CAP almost always come out at the other end, i.e. when the final decision is made by the Council of Agriculture Ministers, as significantly watered down versions of the initial proposals.”¹⁶ This was the case in the 1990 GATT negotiations in Brussels. To determine the negotiating guidelines during the GATT negotiations in Brussels, the Commission prepared proposals and submitted them to the Council of Ministers. The proposals of the Commission were found too radical by several member states including France, Germany and Ireland while Britain, Holland and Denmark supported them. The conflict among member states over the proposals was overcome only after they were watered down after seven meetings of the Council.¹⁷ In turn, the restricted reform proposals of the EU reduced the size of the EU’s win-set in the GATT talks and the Brussels negotiations failed since the negotiating partners could not reach a deal on the basis of these proposals. In this sense, the failure of the Brussels talks points to the interaction between the bargaining processes at Level I and Level II since the consensus that was reached at the EU level and the resulting restricted reform proposals significantly affected the terms of the agreement and reduced the likelihood of international cooperation.

Another conflict caused by the restricted autonomy of the Commission in negotiations arose during the negotiations for the 1992 Blair House Agreement between the EU and the US. In order to overcome the deadlock of the GATT agricultural negotiations the Commission tried to reach a bilateral agreement with the United States and as a result, in November 1992, the two sides agreed upon the terms of the Blair House Accord which contained key provisions that would become a part of the URAA such as the reduction commitments in Aggregate Support of Measure, the exemption of blue box subsidies from these reduction commitments, and tariffication.¹⁸ Although the Commission negotiated with the US and concluded an agreement, the deadlock over the agricultural negotiations could not be solved because the Blair House Agreement was strongly opposed by France and created a tension between the member states and the Commission. The French Foreign Minister even advocated the suspension of GATT negotiations and the French government threatened to veto the final GATT agreement. Although most of the member states did not support France, the deadlock caused by French resistance to the agreement could only be overcome by renegotiating the terms of the Blair House Agreement.¹⁹ Bart Kerremans argues that since member states considered that the Commission exceeded its negotiating mandate during the negotiations for the Blair House Accord, this initiative created a “Blair House syndrome about the Commission’s abuse of negotiating competencies” in the rest of the WTO negotiations.²⁰ This conflict between the EU institutions blocked the progress in WTO negotiations because as a result of this conflict the deadlock in agricultural negotiations could not be solved and the Uruguay Round Agreement could only be signed with 18 months’ delay.²¹ As the 1990 GATT talks, the conflict in the EU over the Blair House Agreement points to the interaction between Level I and Level II since the conflict in the

EU was reflected on WTO negotiations and by restricting the win-set of the EU it impeded international cooperation on agricultural reform.

Another case that illustrates the effects of the restricted autonomy of the EU negotiators in international negotiations is the debate between France and the Commission because of the proposed cuts in domestic subsidies and tariff levels before the Hong Kong meeting of the WTO in December 2005. European Trade Commissioner Peter Mandelson offered a 70 percent cut in domestic subsidies and a 50 percent cut in tariff levels which would reduce the EU tariff levels from 22.8 percent to 12.2 percent.²² These proposals were strongly opposed by the French officials. The French agriculture minister Dominique Bussereau threatened to veto the Hong Kong negotiations.²³ The French interior minister Nicholas Sarkozy also joined the debate and severely criticized Peter Mandelson for his proposals. In the *Financial Times*, it was stated that the reason for Sarkozy's becoming a part of the debate was to strengthen his position in domestic politics before the presidential elections of 2007.²⁴ Jacques Chirac, the French president, also declared his opposition to Mandelson's proposals and sent a letter in October 2005 to the Commission President Jose Manuel Barroso stating that "France will not be able to endorse the outcome of a negotiation that is contrary to its interests."²⁵ Not only French government officials but also French farm lobby groups such as the French Farmers Union (FNSEA-Fédération Nationale des Syndicats d'Exploitants Agricoles) opposed Mandelson's proposals stating that his offers threatened thousands of jobs in the agricultural sector.²⁶ In sum, the proposals of the Commission once more caused the accusation that it was breaching its mandate and illustrated its restricted autonomy during international negotiations. Since this conflict in the EU (i.e. at Level II) over the proposals of the Commission before the WTO Hong Kong ministerial spread to Level I

and Level III of the bargaining process, it is a crucial case which proves that the three levels of the bargaining process are closely linked with each other and conflicts in the levels below significantly restrict the win-sets of states at Level I.

The CAP reforms starting with the 1992 reforms represent other cases in which the limitations on the Commission's autonomy played a significant role in shaping the changes in agricultural policies, because during the negotiations for reform the member states watered down the proposals of the Commission for new agricultural policies. The 1992 reform proposals were introduced as a result of the problems related to the CAP mechanisms, increasing public concern for environmental protection, and international pressures on the Union because of the ongoing GATT negotiations. In December 1990, Agricultural Commissioner Ray MacSharry proposed a set of reforms which included the reduction of price support for cereals by 35 percent, the introduction of direct payments to smaller farms to compensate these price cuts, and set aside measures to reduce surplus production. These reform proposals were supported by Portugal, Spain, Italy and Greece since their agricultural sector is predominantly composed of small farms. However, Britain, Denmark, and Holland opposed the proposals because they advocated for larger cuts in order to reduce the expenditures of the CAP. France and Germany also opposed the proposals because they found these proposals too radical. After intense negotiations and concessions to the opposing member states, the reforms were accepted in May 1992. However, the resulting reforms were a diluted version of what the Commission had proposed initially. For example, the price cuts for cereals were 30 percent instead of 35 percent and direct payments would be given to larger farms too instead of only small farms.²⁷ During the Agenda 2000 reforms and the 2003 CAP reform the resistance of some member states to reform proposals was repeated and

as a result, the proposals of the Commission were again diluted. For example, during the negotiations for the 2003 reform France, Ireland, Italy, Austria, Greece and Luxembourg opposed the Commission's reform proposals while Britain, Denmark, and Sweden supported them. Germany was among the states that supported the reform; however, it proposed to postpone the reform until 2006 in order to avoid a conflict with France. Other member states including Spain, Portugal, Finland, and Belgium remained in between these two opposing positions. Because of these diverse positions, the Commission and the member states chose to take a middle way to reach a consensus on the reform. As a result, the proposals of the Commission were once more watered down. Therefore, the final agreement that came out at the June 2003 meeting of the Council of Ministers was significantly different from the proposals that had been approved by the Commission in January 2003. According to this final agreement, the arrangements that would decouple the direct payments from production could be postponed until 2007, many funds would continue to be coupled with production and the price cuts in cereals were cancelled. Therefore, as in the 1992 MacSharry reforms, the fundamental policy changes to reform the European agricultural sector could not be realized in the 2003 CAP reform.²⁸ In sum, although the Commission intended to introduce changes within the CAP to liberalize the agricultural sector or tried to negotiate these changes through international agreements, it could not realize these changes because it is institutionally constrained due to its restricted autonomy in the policy process and the negotiations. The restricted autonomy of the Commission diminished the size of the EU's win-set and reverberated at international negotiations at Level I by slowing down the progress towards a comprehensive agricultural reform.

In addition to the meetings of the Article 133 Committee and the separation of negotiating powers and ratification authority, the limitations on the Commission's negotiating autonomy depend on which member state holds the presidency of the Council of Ministers. Since the government that holds the Council presidency gains a stronger role in negotiations, the position of the government vis-à-vis agricultural reforms is critical in international negotiations. If a government that opposes reform initiatives holds the Council presidency, then the autonomy of the Commission in negotiations for introducing further change is restricted. This diminishes the size of the EU's win-set and the chances for international cooperation. Christina Davis argues that this was the case when France held Council presidency at the initial and final years of the Uruguay Round negotiations.²⁹ Since France strongly opposed a CAP reform, the Commission resisted proposals for liberalization of agricultural trade. Here it should be noted that from the viewpoint of those states that oppose agricultural liberalization, this can be perceived as an advantage for the EU because, as indicated by Putnam, a restricted win-set became an advantage for the EU during the WTO negotiations as it could avoid giving concessions to its negotiating partners by arguing that its hands were tied because of the pressures at home.

In sum, the ratification of international agreements on agricultural issues in the European Union is complicated because of the need to act as a unitary actor in international negotiations, unanimous voting, and the restricted authority of the negotiators due to the close monitoring and direction of the member states and the separation of negotiating powers and ratification authority. Hence the institutional structure of the EU in general and the process through which international agreements on agriculture are negotiated and ratified in particular significantly restrict the win-set of

the EU and diminish the likelihood of international cooperation for the liberalization of international agricultural trade.

According to Robert Putnam, in addition to the institutional structure, the other factor that affects the size of win-sets and the likelihood of international cooperation is the preferences and possible coalitions at the domestic level.³⁰ The preferences of agricultural interest groups of the EU member states play a crucial role in restricting the win-set of the EU in international agriculture negotiations because decision-makers' concerns for maintaining their positions in the domestic political arena lead them to calculate the considerations of their constituencies in determining their positions vis-à-vis changes in agricultural policies. Therefore, the political process at Level II i.e. the EU level is significantly influenced by the bargaining process at Level III i.e. the domestic politics of the member states. There are four main factors at Level III that enable the agricultural interest groups to be effective on decision-makers in agricultural policymaking process and thereby to restrict the win-set of the EU in Level I negotiations: the election rules, strong mobilization of agricultural interests, lack of effective lobbying for the removal of existing protectionist agricultural policies and public perceptions about agricultural policies.

The first factor that gives agricultural interest groups the capacity to influence the changes in agricultural policies is the elections at Level III. In order to introduce a reform in agriculture, government officials need the support of the public, especially the support of agricultural interest groups, because of electoral reasons.³¹ The electoral rules in some member states, like in France and Germany, favor rural districts and provide farm groups the opportunity to use their political power beyond their numbers so as to play a critical role in elections.³² For example, Matthew Elliot and Allister Heath

indicate that “although active farmers comprise 4 percent of the French electorate, 17 percent of French voters possess strong agricultural attributes”.³³ The electoral strength of farmers in France was illustrated in the 1993 elections when farmers voted against the government because of the MacSharry reforms.³⁴ The power of French agricultural interests in the 1993 elections also played a critical role in the revision of the Blair House Accord. Agricultural interests composed an important part of the electoral base of the French government that came to power after the 1993 elections. For this reason the new French government was under the pressure of these groups to revise the Blair House Accord. Constrained by domestic pressure, the French government pushed for renegotiating the agreement and as a result of the Council meeting on 20 September 1993, it managed to pass a decision from the Council to renegotiate the accord.³⁵ This case is important in terms of showing how domestic politics at Level III reverberate upon Level II and Level I, because protectionist tendencies in Europe at Level III were reflected on the agreement reached at the upper level and restrained certain provisions of the agreement about trade liberalization. Later, these tendencies reverberated on Level I because the Blair House Accord provided the basis of the Uruguay Round Agreement on Agriculture which preserved the concessions that had been given to the European Union to shield its protectionist policies against reform.

In addition to the election rules, the strong mobilization of farm groups enables these groups to be effective in agricultural policymaking. As indicated in the second chapter, there are three factors that lead to the strong mobilization of concentrated groups like agricultural interests. The first reason is the role of a “privileged group” among agricultural producers. According to Mancur Olson, the disproportionate allocation of agricultural subsidies may cause a privileged group to lobby for the

continuation of subsidies on behalf of all producers.³⁶ The role that a privileged group plays in agricultural protectionism is illustrated in the Common Agricultural Policy because a great deal of the CAP funds are received by a small group of farmers, some of whom hold strong positions in national governments and in the EU institutions and therefore have the power to effectively lobby for the continuation of subsidies.

The second reason for the effective mobilization of agricultural interests is “selective incentives” that agricultural organizations provide for the farmers. These organizations provide the necessary services for their members and carry out some agricultural programs. These services operate as selective incentives for farmers to join these organizations.³⁷

According to Olson, the third factor for the mobilization of farmers is their “insider group status”.³⁸ In all the member states of the European Union, agricultural organizations have an insider group status. This is especially the case in France and Germany where farmers’ organizations actively participate in the policymaking process. Kennet Lynggaard argues that “in France and Germany agricultural policymaking takes place in neo-corporatist environments made up by farmers’ interest organizations and the national bureaucracies of agriculture ministries”.³⁹ In Germany for example, the German Farmers' Association (DBV - Deutscher Bauernverband) has a strong hold over the Ministry of Agriculture.⁴⁰

In almost every member country of the European Union, agricultural interests are highly mobilized and represented by strong organizations with broad membership. For example in France, producers of major commodities are represented by strong lobbying groups such as the French Farmers Union (FNSEA-Fédération Nationale des Syndicats

d'Exploitants Agricoles).⁴¹ As indicated above, in Germany German Farmers' Association effectively lobbies the government to promote agricultural interests.

The agricultural organizations in EU member countries do not only participate in the bargaining process at Level III but they also pursue their interests at Level II by becoming members of supranational organizations. There are a number of institutions at the EU level that provide a link between the Union and domestic agricultural groups. Management Committees for different product groups are among these organizations. These committees operate as a forum where the member states and agricultural organizations present their views about agricultural policies. In addition to the Management Committees, there are Agricultural Consultative Committees for each product or product group that work for strengthening the links between the Commission and agricultural interest groups.⁴² The Committee of Professional Agricultural Organisations in the European Union (COPA), the General Confederation of Agricultural Co-operatives in the European Union (COGECA) and 150 other European agricultural organizations including agricultural co-operatives and associations of producers, processors and merchants, lobby to promote the interests of agricultural groups. Some of these organizations are concerned with the agricultural sector as a whole while others concentrate on policies related to certain product groups.⁴³ The Committee of Professional Agricultural Organisations in the European Union (COPA) which was established in 1958 is made up of 53 organizations from the 25 member countries of the EU.⁴⁴ Because of its broad membership and official recognition by the European Union as the representative of European agricultural interests, COPA is the most important organization that lobbies for agricultural interests at the EU level. The General Confederation of Agricultural Co-operatives in the European Union

(COGECA), established in 1959, is the other important agricultural organization at the EU Level which represents all agricultural and fishery co-operatives in the EU.⁴⁵ Since agricultural organizations from all the EU member states are the members of COPA or COGECA; these two organizations represent almost all agricultural interest groups at the EU level.⁴⁶ But although there are many organizations at the EU level to support agricultural interests, as indicated by Douglas Webber, there is no strong evidence for close links between the agricultural organizations and EU institutions such as the Commission Directorate-General for Agriculture and Rural Development (DG-VI). Because according to Webber, agricultural interest groups mostly pressure their governments to pursue their interests instead of lobbying institutions at the EU level. Since decision-makers in the national governments act according to domestic political concerns, they determine their policy positions in the EU by considering the preferences of interest groups in their country. In sum, agricultural organizations lobby for their interests at the EU level through their governments rather than establishing close links with supranational institutions.⁴⁷

Putnam argues that “when the costs and/or benefits of a proposed agreement are relatively concentrated, it is reasonable to expect that those constituents whose interests are most affected will exert special influence on the ratification process”⁴⁸ and Mancur Olson indicates that concentrated groups that are disadvantaged by an agreement will become strong opponents of that agreement.⁴⁹ This is the case in the EU countries because the concentration of the benefits of CAP leads those groups receiving these benefits to have strong incentives for opposing changes in CAP policies and to pressure the decision-makers in the face of changes that challenge the status quo in protectionist agricultural policies.⁵⁰ This point is crucial for understanding why protectionist

agricultural policies have remained intact in the EU countries in spite of a comprehensive agreement on the issue. A recent debate in the EU about who benefits from the CAP funds highlights that present agricultural policies in the European Union benefit a very concentrated group because the majority of subsidies are shared by a small group of farmers.

The debate that revolved around the issue of disclosing those who received the CAP farm subsidies was generated in November 2005 upon the initiative of the Commission to publish subsidy lists as a part of a larger policy of providing transparency in the Union, to restore public support that was weakened as a result of the rejection of the European Constitution in France and the Netherlands in the summer of 2005. The list of names that received the CAP funds had been kept secret because of individual privacy concerns. The initiative of the Commission to publish these lists, led by the EU's auditing and antifraud commissioner Siim Kallas and the European Commission President Jose Manuel Barroso, was strongly opposed by the member states that were the main beneficiaries of the CAP funds.⁵¹ The Commission faced opposition at two levels because besides the governments of member states, agricultural interest groups, including Europe's largest farm lobby COPA-COGECA, strongly opposed the initiative.⁵²

As the discussion on publishing the subsidy lists was going on in the EU institutions, some research institutes in Europe disclosed the names of farmers receiving the CAP funds. Among these "farmers" were the biggest companies in the European agricultural sector, members of royal families and government officials. These were declared to be the biggest beneficiaries of the subsidies under the Common Agricultural Policy. According to the data published by these institutions, the top 15 percent of

French farming companies receive 60 percent of direct payments while about 70 percent of small French farmers get only 17 percent of subsidies under the CAP.⁵³ The biggest 58 French farmers receive more than \$27 million a year in subsidies. These subsidies range from \$100,000 to more than \$2 million a year.⁵⁴ In Spain, the 7 top farms together get €14.5 million while the same amount is shared between the 12,700 smaller Spanish farmers.⁵⁵ In Britain, as in France and Spain, the wealthiest farmers and the biggest landowners benefit more from the subsidies of the Common Agricultural Policy, such as the Duke of Westminster who receives a farming subsidy of nearly \$1,800 per day.⁵⁶ Among the biggest beneficiaries of the CAP funds, there are members of European royal families such as Queen Elizabeth II of Britain and Prince Albert of Monaco who received more than \$700,000 and \$300,000 respectively in 2004 from the EU subsidies.⁵⁷ Besides large companies in the sector and members of royal families, some government officials are among the biggest beneficiaries of the EU funds for agriculture. For example, the European Commissioner for Agriculture Mariann Fischel Boel from Denmark and the Minister for Agriculture of Netherlands Cees Veerman are among the biggest beneficiaries.⁵⁸ In sum, as indicated by the data above, the CAP funds are shared by a concentrated group. Hence, they have strong incentives to mobilize and to establish organizations to provide the continuation of these funds, and to lobby their governments, using their power in elections to oppose any initiative that challenges the status quo in protectionist agricultural policies.

In addition to the electoral rules and the mobilization of agricultural groups, the lack of effective lobbying for the removal of existing protectionist agricultural policies operates as another factor that strengthens the agricultural groups in the policymaking process. In contrast to the concentrated benefits of protectionist agricultural policies, the

costs of these policies are diffused among taxpayers and consumers. The diffusion of costs impedes the incentives for mobilization and for establishing organizations to change protectionist agricultural policies.⁵⁹

The last factor that makes the agricultural lobby groups so effective on their governments is related to the perceptions of the public about food safety and job security. Todd Moss argues that although unjustified, worries of the public about these two issues play a significant role in the continuation of protectionist agricultural policies. Moss indicates that policy initiatives to restrain protectionist measures are in general opposed by the European citizens because they are perceived as “an assault on hardworking small farmers and on national heritage, or even as a threat to national security.”⁶⁰

The way CAP has been presented to the European public strongly shapes their perceptions about agricultural policies. The EU defined one of the main aims of the CAP as protecting small farmers and providing them with a fair standard of living; however, in the implementation process, agricultural policies could not fulfill this goal. The difference in support levels across product groups led to a skewed income distribution between different producer groups and different regions.⁶¹ As indicated by the data above, the CAP funds have been received by a concentrated group, mostly not by the targeted group of small farmers. Thus the considerations of European citizens that the CAP reforms will hurt many small farmers are generally unjustified. However, these considerations are used as a tool to maintain their interests by the agricultural groups benefiting from the protectionist agricultural policies. These groups try to maintain the status quo by evoking the worries of European citizens about food safety, and job security and also through addressing their desire to protect small family farms. This has

been the case especially in France where the strong support of the public for agricultural interests was clearly illustrated in the Uruguay Round negotiations. During the negotiations the French public strongly opposed any reform oriented towards the liberalization of agricultural trade and pressured the government to stand against such initiatives even though such an act might have resulted in the collapse of WTO negotiations altogether.⁶²

In sum, the election rules of European countries favor rural districts and give power to agricultural groups in the policymaking process. In addition, the strong mobilization capacity of these groups, the lack of such a capacity in those groups that are disadvantaged by protectionist agricultural policies, and lastly the support of European citizens for these policies motivated due to their worries about food safety, job security and their desire to protect small family farms operate as factors that give the agricultural interest groups the capacity to influence the changes in agricultural policies. By influencing agricultural policymaking at the Level III and Level II and lobbying for the continuation of protectionist policies, agricultural interest groups reduce the size of the EU's win-set at Level I and therefore impede international cooperation for the liberalization of agricultural trade.

During the Uruguay Round and the ongoing Doha Round, together with the institutional mechanisms in the EU, the pressures of agricultural interest groups have slowed down the progress for international agricultural reform. In this way, the dynamics of Level II and Level III in the European Union context have been reflected upon the Level I negotiations. However, this process has not operated in a single direction; on the contrary, it has been shaped along the interaction of the dynamics at the three levels. On the one hand, the EU has been exposed to the pressures at Level II and

Level III and on the other hand, to the international pressures at Level I. During the two rounds of WTO negotiations, the European Union has acted under the restraints of these three levels and as indicated by Robert Putnam, the negotiators have tried to satisfy both domestic and international demands. For this purpose, the European Union followed certain strategies that complemented each other to neutralize pressures at different levels. In these strategies, the EU tried to strike a balance between international and domestic demands. In order to respond to international pressures, the EU introduced three successive reforms in the CAP - 1992 MacSharry reforms, Agenda 2000 reforms and the 2003 reform – and accepted certain proposals in the Uruguay Round that would promote trade liberalization in agriculture. However, as indicated above, the EU was not only under the pressure of Level I negotiations but it was also restrained by the pressures at Level II and Level III. Hence, in carrying out these reforms, it followed some other complementary strategies that would help to neutralize both international and domestic pressures. First of all, when carrying out these reforms, the EU tried hard to avoid alienating domestic agricultural groups and compensated them for their losses that would arise as a result of these reforms. To give an example, although the EU reduced price supports, it introduced direct subsidies to compensate for them.

Secondly, as indicated in the third chapter, at Level I negotiations, during the Uruguay Round, the EU tried to shape the final agreement in a way that would best suit the interests of its agricultural sector. As a result, certain provisions were integrated into the three parts of the Agreement on Agriculture through which the EU fulfilled the requirements of the Agreement without significantly altering its agricultural policies. In the first part of the Agreement on export subsidies, the base period of export subsidy reduction commitments for the EU was set as the 1991-1992 period in which the level of

its export subsidies was far higher than those in the standard base period of 1986-1990.⁶³ In addition, according to the URAA provisions, the EU could carry over its unused export subsidy opportunities from one year to the next as long as it met the total volume and budget commitments over the whole implementation period.⁶⁴ Through these provisions the European Union preserved its high export subsidy levels in the post-Uruguay Round period. According to the provisions of the second part of the URAA on market access, WTO members replaced their non-tariff measures and quantitative limits on imports with tariffs. Like most of the other WTO members, the European Union inflated its base tariffs according to which reduction commitments were determined.⁶⁵ By declaring its tariff equivalents on average about 60 percent above the actual tariffs in the base period of 1986-1988, the European Union could preserve its high tariff levels.⁶⁶ According to the Agreement, the developed countries had to reduce their tariff rates by 36 percent. This rule gave the EU the opportunity to apply larger tariff reductions for the products for which foreign producers could not compete with domestic producers and for those products that already had lower tariff rates, and to apply smaller reductions in tariff rates for “politically sensitive products”⁶⁷ such as grains, sugar, and dairy products. In this way, the EU could apply tariff peaks and restrict market access for agricultural imports. In addition, although the URAA introduced a tariffication process, some WTO members including the European Union continued to apply specific, compound, or mixed duties and concealed their true levels of protection. Moreover, the EU could restrict access to its agricultural market through the special safeguard provision because this provision provided the Union the right to protect its farmers when imports rose above specified limits or prices fell below a particular level.⁶⁸ Another way through which the EU protected its domestic agricultural market was tariff escalation. By

increasing its tariffs according to the level of processing of agricultural products, the EU restricted access to its market.⁶⁹ Lastly, the EU used the tariff rate quotas that were introduced to sustain minimum market access in exactly the opposite way, as a trade barrier. Tariff rate quotas have a two-tiered tariff system that include a low in-quota rate applied to the quantity that meets minimum access requirements and a higher tariff applied to the quantity of imports exceeding the quota.⁷⁰ By setting the in-quota tariff rates very high the EU restricted market access for agricultural products.⁷¹

With respect to the third part of the Agreement on domestic subsidies, the most important provision of the Agreement that highlighted how the EU tried to shape the final agreement according to the interests of its agricultural sector was the creation of the blue box category and the exemption of subsidies under this category from Aggregate Support of Measure (AMS) reduction commitments. As indicated in the third chapter, the blue box category of subsidies was specifically created for the EU because subsidies under this category contained only EU direct payments that were introduced during 1992 CAP reform.⁷² By shifting most of its domestic subsidies into the blue box the European Union could avoid reductions in its domestic support programs. In this way, the EU only reclassified its subsidies in a way that would make them compatible with the WTO disciplines. In short, the blue box category gave the EU the opportunity to preserve its domestic subsidies while claiming to be complying with the WTO disciplines on domestic support programs. In addition to the exemption of blue box subsidies from the AMS reduction commitments, another provision of the URAA through which the EU preserved its domestic subsidies was that AMS reductions are not product-specific. As in the case of tariff reductions, this provision provided the WTO members with the opportunity to arrange reductions in their domestic subsidies according to the interests of

their agricultural sectors. Hence the EU could increase support for its sensitive products while still meeting its legal obligations under the Agreement.⁷³ Lastly, the Peace Clause in the Agreement provided a shelter for the domestic subsidies of the EU because it exempted them from being subjected to the countervailing duty process or the normal dispute settlement process.

These were the provisions of the Uruguay Round Agreement on Agriculture that helped the EU to satisfy both international and domestic demands by complying with the WTO disciplines without alienating domestic agricultural interests. This strategy of the EU has continued during the Doha Round. When faced with strong criticism for using blue box subsidies as a smokescreen for keeping up its protectionist policies, the European Union once more reclassified its domestic subsidies and shifted them into the green box through the 2003 CAP reform.⁷⁴ Moreover, it proposed to make the multifunctional role of agriculture an integral part of the WTO disciplines. Since the idea of multifunctionality was based on the argument that agriculture fulfills many functions including environmental protection, preservation of the rural landscape, food safety and quality, and animal welfare,⁷⁵ it was a very broad concept that could provide the opportunity to introduce new forms of support measures in the name of helping the agricultural sector to fulfill its multifunctional role. Therefore, under such a provision the EU would be able to continue its agricultural support programs and at the same time comply with the WTO disciplines on agriculture. In the Hong Kong Ministerial of the Doha Round in December 2005, the EU agreed to eliminate all export subsidies until 2013.⁷⁶ As the other policies of the EU in the Doha Round, this arrangement on export subsidies also illustrates how the European Union tried to balance the pressures at different levels of bargaining because as pointed out in the third chapter, through direct

subsidies in the blue or green boxes European farmers can sell their products at a price lower than the world price; therefore, they do not need an export subsidy to sell their produce in world markets. In this way, the direct subsidies in the blue and green boxes operate as “implicit export subsidies”.⁷⁷

In sum, the negotiating position of the European Union both in the Uruguay and Doha rounds has been determined by the interaction of the dynamics of the three levels of the bargaining process. Through certain strategies the EU tried to satisfy both international and domestic demands. On the one hand, it introduced three successive CAP reforms to respond to pressures at Level I; however, in carrying out these reforms the EU strongly tried to avoid alienating domestic agricultural groups. On the other hand, in order to respond to pressures at Level II and Level III during the Uruguay Round negotiations, the EU tried to shape the final agreement in a way that would enable it to continue to support its agricultural sector and restrict access to its agricultural market. Consequently, as indicated above the European Union accomplished this goal by integrating certain provisions into the three parts of the Agreement. During the Doha Round, the EU followed a similar strategy and pushed for certain provisions that would enable it to shelter its existing agricultural policies against significant alterations. Through these strategies the European Union succeeded in complying with the WTO disciplines and weakened international pressures to liberalize its agricultural sector while avoiding alienating domestic interests in the sector by continuing domestic support programs and restricting market access.

CHAPTER V**THE AGRICULTURAL POLICIES OF THE UNITED STATES**

In this chapter, I will examine the factors that impede liberalization in the US agricultural sector. There are two main factors that block agricultural liberalization in the United States. The first factor is related to the institutional process through which the reforms are carried out and international agreements are ratified. The second factor is related to Level II politics, in particular, how domestic politics in the United States affect the initiatives for the liberalization of the agricultural sector. In this chapter, I will examine how these two factors at the Level II interact with the dynamics of Level I negotiations, i.e. WTO negotiations on agricultural reform.

The first reason that impedes agricultural liberalization in the United States is the institutional process through which the agricultural policies are decided and carried out. This process is crucial for understanding agricultural protectionism because the US government system has significantly affected the progress in the international negotiations on the liberalization of agricultural trade. As in the European Union, institutional mechanisms in the United States give negotiators a restricted autonomy during the international meetings on agriculture. This has been the case for the WTO negotiations in the Uruguay Round and Doha Round. The main factor that restricts the autonomy of negotiators during the international meetings is the separation of negotiating powers and the ratification authority. In the United States, the executive branch of the state carries out the negotiations in the WTO but the Senate ratifies the final agreement.¹ This separation between negotiating and ratification powers in international agreements is important for the liberalization of agricultural trade because of two reasons. Firstly, even though negotiators push for liberalization during the

negotiations; they are restrained in their efforts because the Congress is highly protectionist; therefore, it may reject an international agreement that would significantly liberalize the US agricultural sector.² Secondly, according to the US Constitution, 31 of 100 senators can block the ratification of an international treaty. Hence, the Constitution gives a critical veto power to a small group in the Senate.³ In short, as in the European Union, negotiators cannot decide or accept certain proposals without calculating their probability of ratification and their reflection in the domestic political arena because the ratification process of international agreements in the United States significantly restricts their autonomy. This restriction in turn limits the win-set of the United States and thereby impedes the prospects for international cooperation at Level I negotiations.

In order to overcome the problems arising due to the separation of negotiation and ratification powers and to make the ratification of a given agreement easier, the supporters of trade liberalization in the United States have tried to use the “fast track procedures” (also known as the “trade promotion authority”)⁴ under which “the Congress restricts itself only to approve or reject a negotiated trade agreement, within strict time limits and without amendments”.⁵ Through the fast track procedures the Congress gives the executive branch the authority to negotiate trade agreements and determines the specific rules for the ratification of these agreements.⁶ Although fast track procedures may give the executive branch the opportunity to take the initiative in negotiations, it may weaken the policies of the government as well because in order to receive the trade promotion authority the executive branch may have to give some concessions to the Congress. For example, before the introduction of the fast track procedures for the Doha Round, the Bush Administration accepted the expansion of the

agricultural support program in the 2002 Farm Security and Rural Investment Act in spite of considerations of fiscal constraint.⁷

The rules of ratification in fast track procedures may also restrict the negotiators' autonomy in meetings for trade agreements as in the case of 2002 fast track procedures. The 2002 fast track procedures had provisions that put serious limitations on the negotiators ability to make concessions on agriculture to the trade partners of the US. For example, under these fast track procedures, the US government had to consult the House and the Senate before initiating any negotiation on imports of sensitive agricultural products. In addition to restricting the autonomy of the negotiators for the future meetings of the WTO, the 2002 fast track procedures significantly challenged the negotiating authority of the executive branch in the previous meetings, because they included a provision that allowed the Congress to "vote on whether to accept certain agriculture concessions which US negotiators could have delivered to other countries without congressional approval under past fast tracks."⁸ Hence, although the Congress transfers the negotiating authority for trade agreements to the executive branch, through certain mechanisms it may restrict this authority and thereby impede the initiatives of the Administration for trade liberalization.

Besides the institutional process at Level II, the preferences of the domestic interest groups significantly affect the prospects of international cooperation at Level I, because these preferences may restrict the win-set of a state and reduce the chances of cooperation. The preferences and interests of different groups in the United States significantly shape the liberalization in the US agricultural sector because when carrying out international negotiations, the negotiators calculate domestic reactions in order to maintain or promote their positions in the domestic political arena. In this respect, the

preferences of the agricultural groups exert significant pressure on the decision-makers. There are four main reasons that make agricultural groups so effective in the domestic politics of the United States: the election rules, strong mobilization of agricultural interests, lack of effective lobbying for the removal of protectionist agricultural policies and public perceptions about agricultural policies. To begin with, as in the case of the European Union, the electoral rules favor rural districts in the US and although less than 2 percent of the US population live on farms⁹, they can have significant power over the decision-making process. In this sense, the disproportionate representation of agricultural interests in the Senate and the scheduling of presidential primaries are crucial electoral rules that provide the agricultural groups with the capacity to bring about changes in agricultural policies. The electoral strength of agricultural groups leads politicians to introduce policies that support agricultural interests in order to promote their positions in the domestic political arena. For example, the 2002 Farm Bill provided the Bush Administration with the opportunity to “promote Republican Party interests in the 2004 elections across such critical states as Arkansas, Georgia, Iowa, Minnesota, Mississippi, and South Dakota”.¹⁰

Besides electoral rules, the strong mobilization of agricultural groups enables them to influence agricultural policies according to their interests. In the United States, agricultural interests are represented by strong organizations that have vast resources for lobbying. There are organizations for almost every agricultural product¹¹ such as the National Cotton Council, the American Soybean Association, the National Association of Wheat Growers, the American Sugar Alliance, and the Associated Milk Producers.¹² In addition to these specialized commodity organizations, there are “cross-crop organizations”¹³ such as the National Grange, the National Farmers Union, and the

American Farm Bureau Federation. The National Farmers Union represents the small farmers and advocates “a larger role for government in agriculture particularly in strengthening the family farm system and low-income farm groups”.¹⁴ The Union has 300,000 farm families as members.¹⁵ In contrast to the National Farmers Union, the American Farm Bureau Federation represents the interests of agribusiness.¹⁶ The American Farm Bureau Federation, which has the largest number of members among agricultural organizations in the United States, is the most important lobby group in the US agricultural sector. This organization has been very effective in agricultural policymaking process as both in the Congress and in the Department of Agriculture.¹⁷ This was the case during the preparation of the 2002 Farm Bill, because the proposals of the Federation on continuing the agricultural supports to large farms and agribusiness were approved in the Bill.¹⁸ Not only have the cross-crop organizations succeeded in promoting their interests through lobbying the government and the Congress, but also specialized commodity organizations have accomplished their goals in providing state support for their business. Schlozman and Tierney argue that specialized commodity organizations have greater success in influencing agricultural policies than the cross-crop organizations because they focus on a narrower set of issues whereas cross-crop organizations have to deal with many diverse issues. In addition, working closely with the members of the commodity subcommittees in the Congress gives specialized commodity organizations a significant advantage over the cross-crop organizations in promoting their interests.¹⁹ During the preparation of the 2002 Farm Bill, specialized organizations also succeeded in their efforts to pass new policies that would provide them more government support. For example, the subsidies in the Bill were concentrated

on only a few products such as corn, wheat, cotton, rice, soybeans, milk, sugar, and peanuts.²⁰

The three factors, indicated by Mancur Olson, that lead to the strong mobilization of agricultural groups are observed in the US case too. To begin with, most of the support is shared by a concentrated group of farmers that have the largest farms in the United States.²¹ The recipients of these subsidies constitute a “privileged group” in the US agricultural sector; therefore, as argued by Olson, they have strong incentives to lobby for the continuation of these supports on behalf of all producers.

The second factor that leads to the strong mobilization of agricultural interests is “selective incentives” that agricultural organizations provide for the farmers. As in the European Union, the farm organizations in the United States provide certain services for their members that operate as selective incentives for farmers to join these organizations. For instance, the American Farm Bureau Federation provides many services for its members including feeds and insurance. Also, farmers that become a member of the federation receive discounts and patronage dividends. To benefit from these services farmers pay dues to the Federation; if they do not pay, they are excluded from the organization and they cannot receive the necessary services to run their farms. In this way, the services provided by the American Farm Bureau Federation operate as a tool for strong mobilization. Another way in which these services lead to strong mobilization by operating as selective incentives is that the payments received from the members in return for the supply of services are used for lobbying activities that provide significant benefits for the members of the Federation.²²

The third factor that underlines the strong mobilization of agricultural interests is their “insider group status”. The regular meetings with the House Agricultural

Committee provide an insider group status for the agricultural organizations in the United States. In this way, these organizations find the opportunity to inform the committee members about their preferences and to influence their decisions.²³ This was the case for the period during which the 2002 Farm Bill was prepared. According to the provisions of the Freedom to Farm Act (FAIR) of 1996, a commission named the Commission on 21st Century Production Agriculture was set up to evaluate the implementation process of the Bill and to recommend changes for the next farm bill. Among the members of the commission there were representatives of the farm organizations; therefore, agricultural interests were directly represented in the commission. This provided these organizations an insider group status and thereby gave them the opportunity to promote their interests by directly shaping agricultural policies. The farm organizations could significantly influence the agricultural programs because they actively participated in preparing the commission report that was used as the basis of policies in the next farm bill. In this report, the commission called for the extension and expansion of Production Flexibility Contract (PFC) subsidies that were supposed to be phased out in 2002, the creation of a new counter-cyclical farm subsidy program, and the continuation of subsidies received by the agribusiness. In this way, the commission called for a reversal of the policies introduced by the 1996 Farm Bill for the liberalization of the US agricultural sector. After the report was released in January 2001, representatives of farm organizations such as the president of the American Farm Bureau Federation and an executive member of the National Cotton Council advocated the new policies outlined in the report before the House Agricultural Committee. Consequently, these efforts of the agricultural organizations paid off, because the new policies proposed by these organizations became a part of the new farm bill in October

2001 as both the House of Representatives and the Senate approved the Bill by preserving the changes supported by the farm lobby.²⁴ In sum, by becoming members of the commissions that prepare the future policies of the agricultural sector and by joining the meetings of the House Agricultural Committee agricultural organizations gain an insider group status in the agricultural policymaking process and therefore they can significantly shape the policies along their interests.

Agricultural groups do not only have an insider group status in the House Agricultural Committee but also in the Department of Agriculture. Schlozman and Tierney argue that in the United States some federal agencies were set up “to organize and nurture a special public and to act as its advocate in the halls of government.”²⁵ According to Schlozman and Tierney, the Department of Agriculture has been among these agencies because the Department does not treat farm groups as an industry to be regulated but rather as a “clientele”.²⁶ The Department of Agriculture has such a close relationship with the farm groups because these groups are “closely allied with the committees and subcommittees in the Congress that exercise control over the Department’s affairs.”²⁷ This close relationship with the Department of Agriculture provides the farm organizations with an insider group status in the executive branch of the state.

The strong mobilization of agricultural groups in the United States is reflected especially in the electoral campaigns during which they contribute significant amounts to candidates in elections. Kishore Gawande and Bernard Hoekman illustrate that one of the reasons for protectionist agricultural policies is electoral political campaign contributions.²⁸ They show this through an examination of the Congress elections over the 1991-2000 period. Gawande and Hoekman indicate that lobbying contributions

compose a significant share of the campaign expenditures of many congresspersons. This figure increases up to 80 percent for some members of the Congress.²⁹ According to the analysis of Gawande and Hoekman, the agricultural political action committees (PAC) which are “the fund-raising units organized to collect and disburse campaign contributions”³⁰ target influential politicians in the agricultural policymaking process for their contributions. Therefore, for example members of the House Agricultural Committee and members of the Congress that represent districts with strong agricultural constituents such as California, Oklahoma, Virginia, and Michigan have been among the top recipients of agricultural PAC contributions.³¹ In short, the agricultural organizations in the US influence the policymaking process in the Congress by shaping the decisions of the members of the Agricultural Committee who in turn persuade other members of the Congress to support agricultural policies through vote-trading, in other words, other members of the Congress support the Agricultural Committee members in agricultural policies in exchange for their support on other issues.³²

In addition to the electoral rules and the mobilization of agricultural groups, the lack of effective lobbying for the removal of agricultural supports operates as another reason that gives agricultural groups the capacity to be effective on agricultural policymaking. As in the case of the EU, in the United States the concentration of the benefits of agricultural supports gives strong incentives to farmers to get mobilized and establish organizations for maintaining the status quo in agricultural support programs. In contrast, the diffusion of the costs and disadvantages of these supports eliminates the motives for lobbying against these protectionist policies. As argued by Gawande and Hoekman, people in industrial countries such as the United States have become less sensitive about an increase in farm price caused by these protectionist policies because

they spend a small part of their income on farm products³³ and therefore they are not concerned with lobbying to eliminate protectionist agricultural policies.

The fourth reason that strengthens the agricultural groups in the US in the policymaking process is the perceptions of the public about the agricultural sector. Public perceptions in the United States resemble the perceptions of European citizens because in the United States agriculture is considered in terms of a broad framework of food safety, national security and the job security of small farmers. Like the EU citizens, American citizens value small family farms; therefore, protection of these farms is a critical issue for the public.³⁴ The American public generally views protectionist agricultural policies as a support to small farms. A recent study conducted by Steven Kull clearly illustrates this point. Kull indicates that 77 percent of the respondents in the study supported providing subsidies to small farms while only 31 percent supported providing them to agribusiness. In the US “farm states”, i.e. 17 US states that receive the largest amounts of farm subsidies, the attitudes of the public were similar with the rest of the population. In these states, support for subsidies to small farmers was 81 percent whereas only 31 percent favored subsidies to large farming businesses. According to Kull, the results of the study indicate that support of the American public for agricultural subsidies is very strong in principle; however this support is for the subsidies to small farmers, not for those subsidies received by large farm corporations.³⁵ As indicated by this study, the support of the American public for subsidies derives from their concern for the protection of small family farms; therefore, those groups trying to maintain the status quo in agricultural support programs portray these programs as policies that help to preserve the family farms. However, although these policies have been portrayed as such for justification, “small farmers are not the major beneficiaries of current

agricultural policies. 80 percent of US subsidies go to agribusiness, and 10 percent of recipients collect about two-thirds of all subsidies.”³⁶ As in the Common Agricultural Policy of the European Union, one of the fundamental goals of the agricultural support programs in the United States was to protect small family farms. However, in practice these programs have deviated from this goal because as indicated by Joseph Stiglitz, “the subsidies do not improve the condition of owners of small and medium size farms in America; on the contrary, most of the payments subsidize the inefficient rich farmers of the US”.³⁷ One reason for the concentration of subsidies on wealthy farmers having large farms is the increase in subsidy levels according to the amount of produce. Since large corporate farms have very high productivity levels compared to small family farms, they can receive higher amounts of state support.³⁸ The concentration of agricultural supports in large farms have severe repercussions for the small farms in the United States because these supports which were intended to protect small farms have become a tool for driving them out of business as they “have often been used by the recipients to buy out the small family farms”.³⁹ Moreover, the concentration of US domestic support programs in large farm businesses caused a skewed income distribution across regions as in the case of the Common Agricultural Policy of the EU. This was clearly indicated by the distribution of subsidies through the 2002 Farm Bill because just six states, Iowa, Illinois, Texas, Kansas, Nebraska, and Minnesota received nearly 50 percent of the subsidies. Besides regions, there is a skewed income distribution across producers of different agricultural commodities because subsidies are allocated according to product types and they are concentrated in certain product groups. For example, between 1999 and 2001 the majority of subsidies were received by farms that produce only five of the 400 domestic agricultural products in the United States. Brian

Riedl indicates that of the \$64.2 billion in direct subsidies allocated between 1999 and 2001 90 percent was received by farmers producing wheat, corn, cotton, soybeans, and rice.⁴⁰ As is the case with regions, the 2002 Farm Bill clearly illustrates the concentration of subsidies only in a few products because the subsidies were allocated among the producers of corn, wheat, cotton, rice, soybeans, milk, sugar, and peanuts.⁴¹

The justification of domestic support programs in the US on the basis of protecting small family farms has lost its ground because in recent decades the US agriculture has been characterized predominantly by corporate farmers, i.e. agribusiness, rather than small farmers. The mechanization of agriculture and the use of capital-intensive agricultural methods such as hybrid seeds, fertilizers, and chemicals to increase productivity and efficiency drove many small family farms out of business because due to the lack of sufficient capital small farms could not compete with larger farms.⁴² Today, these large farms in the United States are owned by a small number of corporations; therefore, there is a “concentration in agribusiness”. Through “vertical integration” these corporations control all the processes in agriculture, from primary agricultural production to the processing of the products and their marketing.⁴³ The concentration of ownership and vertical integration in agribusiness has brought about the concentration of subsidies explained above.⁴⁴ The lobbying activities of the strong agricultural organizations also led to the concentration of subsidies in agribusiness because influential agricultural organizations such as the American Farm Bureau Federation have lobbied successfully both in the Congress and in the Department of Agriculture and promoted the interests of agribusiness at the expense of small farms.⁴⁵ In short, as in the case of the European Union, in the United States small farmers are not the main beneficiaries of agricultural supports; therefore, presenting the protection of

small farmers as one of the main goals of the agricultural support programs is only a tool for certain farm groups to maintain the status quo in agricultural protectionism.

In sum, the election rules, strong mobilization of agricultural interests, lack of effective lobbying for the removal of protectionist agricultural programs and public perceptions about agricultural policies give agricultural groups in the US the capacity to influence decision-makers and to shape agricultural policies along their interests. Hence together with the institutional process, the pressure of agricultural groups at Level II for continuing agricultural protectionism significantly restricts the win-set of the US in Level I negotiations and therefore reduces the prospects for concluding an international agreement that will introduce the reforms critical for the liberalization of agricultural trade. This has been the case for the Uruguay Round Agreement on Agriculture (URAA) because constrained the domestic institutional process and the pressures of domestic agricultural groups, the two major players in world agricultural trade, the EU and US, manipulated the provisions of the Agreement in such a way that they could continue their protectionist agricultural policies and at the same time claim to fulfill the requirements of the WTO disciplines for the liberalization of international agricultural trade. Therefore, although the United States has signed the Uruguay Round Agreement on Agriculture in 1994, the Agreement has not prevented it from continuing its protectionist agricultural policies. Two successive farm bills of the United States indicate the changes in US agricultural policies under the pressure of the dynamics at Level I and Level II. After signing the URAA, in 1996 the United States introduced the Freedom to Farm Act (FAIR) which included policy changes that would reform its agricultural sector in terms of trade liberalization. For example, the Bill eliminated target prices and replaced them with decoupled historical entitlements which are called

Production Flexibility Contract (PFCs) payments.⁴⁶ Also, the Bill aimed to reduce the total amount of agricultural supports. However, this did not happen because up to the introduction of the new farm bill in 2002, payments to farmers increased 300 percent and totalled \$22 billion.⁴⁷ Because of these increases and the introduction of new forms of supports such as Market Loss Assistance (MLA) payments, the reform process did not continue and liberalization attempts were reversed. The most crucial policy initiative that reversed agricultural liberalization in the United States was the Farm Security and Rural Investment Act that was introduced in 2002. The 2002 Farm Bill authorized support to the agricultural sector totaling \$180 billion for a ten-year period. It is estimated that the 2002 Farm Bill increased domestic supports of the US almost 80 percent.⁴⁸ Also, it reversed the decoupling process of US subsidies because it re-coupled payments by allowing updating of base acres and payment yields.⁴⁹ According to critics, the 2002 Farm Bill indicated that the United States had no intention to cut back on its agricultural supports and therefore would continue its protectionist agricultural policies.⁵⁰

Even though the United States continued its protectionist agricultural policies during the period of the two successive farm bills since the hands of the supporters of agricultural trade liberalization were tied due to the restrictions imposed by the institutional process and the pressures of farm lobby groups, the United States continued to pose as the leading defender of agricultural liberalization during the WTO negotiations in the post-Uruguay Round period. This contradiction between the domestic agricultural policies of the US and its position in the Doha Round negotiations appears clearly when the 2002 Farm Bill and 2002 US WTO proposal on agriculture are compared. This proposal, which was announced only a few months after the Farm Bill,

significantly contradicted with the provisions of the Farm Bill because while the Farm Bill reversed the previous initiatives for agricultural liberalization and strengthened protectionist policies, this proposal called for restricting agricultural subsidies and protection. In the Doha Round proposal, the United States called for replacing linear tariff reduction rules with a Swiss formula which would eliminate the problem of keeping high levels of tariffs by applying smaller reductions in the tariff rates of “politically sensitive products”⁵¹ and applying larger tariff reductions for those products that already had lower tariff rates. In addition to further tariff reductions with a Swiss formula, the US proposal called for abolishing the blue box category of subsidies and eliminating the export subsidies, export taxes and special safeguard provisions regarding tariff rate quota (TRQ) commodities.⁵² David Orden indicates that “the US proposal is designed not only to bring substantial trade liberalization but to do so in ways that are particularly easy on its own farm programs”⁵³ firstly because the Swiss formula would not affect agricultural tariffs of the US as it has relatively few high protective tariffs that would have to be reduced with the Swiss formula. Secondly, since the US gave up domestic support in the blue box by introducing planting flexibility under the 1996 FAIR Act, the domestic support programs of the US would not be influenced by the elimination of the blue box category. Lastly, since the US does not use export subsidies and export taxes are unconstitutional; abolishing these export measures would not affect the US agricultural export programs. Hence, as indicated by David Orden, the reforms proposed by the United States for the Doha Round negotiations would mostly affect other WTO members;⁵⁴ the US, on the other hand, would have the opportunity to continue its existing agricultural policies and to introduce only minor changes. Therefore, although the United States presents itself as the champion of trade

liberalization in agriculture; the reforms it proposed in the Doha Round would not liberalize its agricultural sector; rather, they would remove the restrictions on agricultural trade in other WTO member countries. In sum, comparing the 2002 Farm Bill and the US WTO proposal, and examining the Doha Round proposal of the US and its possible effects on the existing US policies clearly points to the divergence between the domestic policies of the United States and its international negotiating position in the Doha Round, and proves that the United States has no intention of carrying out the fundamental reforms to liberalize its agricultural trade. The discrepancy between the negotiating position of the United States at Level I and its domestic agricultural policies has been reflected not only in the Doha Round but as indicated in the third chapter, also during the Uruguay Round. As is the case with the European Union, the US was restrained by the pressure both from Level I and Level II and as emphasized by Putnam, the negotiators tried to respond to pressures at these two different levels. For this reason the United States followed certain strategies during the Uruguay Round and as pointed out in the third chapter, it shaped the final agreement in such a way that it could maintain its domestic support programs and restrict access to its agricultural market but at the same time claim to be complying with the WTO disciplines on agricultural liberalization. In the first part of the Agreement on export subsidies, the base period for export subsidy reductions was arranged according to the 1986-1990 period. Since during this period the export subsidy rates were very high, like the EU, the US could comply with WTO regulations on export subsidies without introducing significant reforms in its export subsidies.⁵⁵ In addition, the Uruguay Round Agreement on Agriculture provided the WTO members with the opportunity to carry over their unused export subsidy opportunities from one year to the next as long as they met the total volume and budget

commitments over the whole implementation period. As the European Union, the US benefited from this provision so that it could preserve its previous export subsidy levels.⁵⁶ One of the most crucial strategies of the US during the Uruguay Round negotiations with respect to export measures was its resistance to the regulation of export credits under WTO disciplines. As a result of its insistence on this issue, export credits which composed the main item in the export subsidy programs of the United States were excluded from the reduction commitments for export measures.⁵⁷ These provisions on export measures enabled the United States to continue subsidizing its agricultural commodities.

Besides these provisions on export measures, the articles of the Agreement on market access also provided certain advantages for the US agricultural sector. First of all, the US benefited from the provision that developed countries had to reduce their tariff rates by 36 percent. In line with this provision, the US could avoid making large reductions in the tariffs of its sensitive agricultural products such as sugar, peanuts, and dairy products and applied tariff peaks for these products. As the European Union, the US compensated for these tariff peaks by applying larger tariff reductions to the products for which foreign producers could not compete with domestic producers, and for those products that already had lower tariff rates.⁵⁸ In addition to using tariff peaks for its politically sensitive products, the US continued to use specific duties and restricted access to its agricultural market although tariffication became the norm in the Agreement.⁵⁹ Another provision of the Agreement that the US used for restricting market access for agricultural imports is the special safeguard provision. As in the case of the EU, the United States extensively used this provision to protect its agricultural sector in the face of import surges or against decreases in commodity prices.⁶⁰ Besides

tariff peaks, specific duties, and the special safeguard provision, the US used tariff escalation to restrict access to its agricultural market. The increase in tariffs according to the level of processing of agricultural products operated as a tariff barrier in the US agricultural market for value-added products.⁶¹

The last provision which enabled the United States to limit agricultural imports to its market is related to the tariff rate quotas. The US used tariff rate quotas as a trade barrier rather than as a measure that would provide minimum market access for certain agricultural commodities as stated in the Agreement.⁶² Through these provisions in the second part of the Agreement, like the EU, the United States has restricted market access for agricultural imports although some of these provisions of the Agreement were introduced with the purpose of ensuring market access. With respect to the third part of the Agreement on domestic subsidies, the US followed a similar strategy with the EU; instead of reducing its domestic subsidies, it reclassified them so that it could comply with the WTO disciplines even though in some cases it increased the total amount of its domestic supports. In this sense, the insistence of the US on the green box subsidies is very crucial. As indicated in the third chapter, during the Uruguay Round negotiations subsidies were classified under three categories and those subsidies that were presented as non-trade distorting or causing minimal distortion were classified under the green box category and they were exempted from the Aggregate Measure of Support (AMS) reduction commitments. In this way, an opportunity to increase the total amount of these subsidies was provided for the member states. Critics point out that no subsidy can be fully decoupled from production;⁶³ hence all subsidies, including the green box subsidies, can adversely affect agricultural production and trade. Therefore, although the shifting of domestic subsidies into the green box was presented as a significant

contribution to agricultural reform, the increases in these subsidies because of the lack of specified limits on their quantity have the potential to distort international agricultural trade and weaken the progress for reform.

The United States used the opportunities provided in the Agreement on Agriculture through the green box category. Firstly, it decoupled its domestic subsidies and shifted them into the green box and in this way; it exempted these subsidies from the AMS reduction commitments under the URAA. Secondly, it increased its total level of domestic support without breaching the provisions of the Agreement. The provisions on green box subsidies enabled the United States to comply with the WTO disciplines although it preserved its domestic supports and even increased them. In this way, the US could respond to pressures both at Level I and Level II.

In sum, the way the United States implemented the Agreement on Agriculture and its strategies during the Uruguay and Doha rounds highlight the process through which it tried to respond to pressures both at Level I and Level II. As a result of its policies in the implementation process of the Agreement and its strategies during the Level I negotiations, the US could preserve its domestic support programs and restrict access to its agricultural market while claiming to be complying with WTO disciplines. The divergence between the position of the US at Level I negotiations and its policies at Level II, which stemmed from the reverberation of the limitations at Level II on Level I negotiations and from the imposition of pressures at Level I on domestic agricultural policies, reflects the goal of the United States to play the two-level game in a way that will satisfy both international and domestic demands.

CHAPTER VI**CONCLUSION**

Until the Uruguay Round, agriculture was an exceptional issue in the context of international trade talks. However, at the end of the Uruguay Round, a comprehensive agreement on agriculture was signed and this sector was brought under the WTO disciplines. The proponents of the Uruguay Round Agreement on Agriculture (URAA) presented the Agreement as a significant step that would introduce the fundamental reforms necessary for the liberalization of international agricultural trade. However, the implementation process in the post-Uruguay Round period showed that this was not going to be the case for the future of the sector. On the contrary, protectionist policies in world agricultural markets continued and even strengthened. The main reason for this was the way the Agreement was shaped during the Uruguay Round negotiations. The Agreement contained some loopholes through which the WTO members could preserve their domestic agricultural supports and continue to restrict access to their agricultural markets but claim to fulfill their obligations under the Agreement. In this sense, the agricultural policies of two major players in global agricultural trade, the European Union and the United States, were crucial because they were the leading WTO members who influenced the negotiation process and shaped the final agreement. In addition, since they provided the highest amount of protection for their producers, their policies during the WTO negotiations and in the implementation process are significant in terms of trade liberalization in agriculture.

Today, international agricultural reform is one of the most significant issues on the world agenda, especially for developing countries. The main reason why most developing countries became members of the World Trade Organization was the

prospect of agricultural liberalization, because as a result of the removal of barriers in agricultural trade, developing countries would reap the benefits of their comparative advantage in agriculture. Increasing their share in agricultural commodity markets is crucial for these countries in terms of economic development and poverty alleviation because half of their population lives in poor rural areas and their primary source of income is agriculture. In addition, agricultural products have the largest share in the foreign trade of these countries. The continuation of restrictions in global agricultural trade eliminates the opportunity of these countries to use agricultural exports as a means of economic development because protectionist policies in agriculture increase agricultural output and decrease the prices of agricultural commodities in world markets, thereby taking away the opportunity of developing countries to enjoy their comparative advantage in agricultural production. Therefore, an international agricultural reform that eliminates protectionist agricultural policies and increases their market share in global agricultural trade is a significant goal for developing countries in order for them be able to use their comparative advantage in agricultural production and to accomplish economic development.

As I indicated above, the leading WTO members who extensively used protectionist measures in agriculture were the European Union and the United States. Hence, during the Uruguay Round negotiations they were on the one hand under the strong pressure of their negotiating partners to change their agricultural policies. On the other hand, they were under the pressure of their domestic constituents who pushed for the continuation of the existing policies. Thus both the EU and the US were under the pressure of two bargaining levels and they were constrained by the dynamics of these two levels. During the Uruguay Round and in its aftermath, the European Union and the

United States tried to respond to pressures at both levels and to satisfy both the international and domestic demands.

The two-level game approach of Robert Putnam has been a useful conceptual framework in examining the policies and strategies of the EU and the US during this process, because this approach captures how decisions-makers are surrounded simultaneously with domestic and international pressures during the policy formulation and implementation processes. With his argument that international negotiations operate as a two-level game in which decision-makers try to balance domestic and international pressures and to conclude an agreement that will satisfy both domestic and international demands, Putnam combines different levels of analysis and emphasizes the interaction between the dynamics of different bargaining platforms; therefore, his game approach offers a good framework with which to analyze the policies and strategies of the EU and the US during the WTO negotiations on agriculture.

In examining the problem of why protectionism in global agricultural markets persists in the framework of Putnam's two-level game approach, two questions stand out: how domestic factors in the EU and US have influenced the negotiation process at the WTO, and how the dynamics of WTO negotiations have interacted with these factors to restrict the win-sets of the EU and US so as to impede international cooperation for the liberalization of global agricultural trade. In order to address these questions, I examined the strategies of the EU and the US at Level I negotiations and the factors at Level II (and Level III in the context of the European Union) leading to the continuation of protectionist agricultural policies in the EU and the US. In the European Union context, the domestic level of member states has to be taken as a different level because it operates as an additional platform of bargaining for the ratification of an

international agreement. For this reason, I used a three-level game model for the EU taking the domestic level of the member states as Level III.

In the contexts of the EU and US, two factors are crucial for the bargaining process at the domestic level. The first factor is related to the institutional process at Level II through which the reforms are carried out and international agreements are ratified. The institutional processes for the negotiation and ratification of an international agreement play an important role in terms of international cooperation as the terms and the probability of the agreement are determined according to who controls these processes. If institutional mechanisms provide relatively more power to the opponents of an agreement than its supporters, then the chances for international cooperation diminish. In addition, the rules under which an international agreement is accepted significantly affect its prospect for ratification: As the ratification process gets more difficult, the likelihood of the approval of the agreement decreases. In the case of the European Union, the institutional mechanisms significantly restricted the chances for the approval of an agreement that would liberalize the European agricultural sector. In the context of the EU, the institutional constraints that restricted the win-set of the EU at Level I negotiations and impeded agricultural reform were the need of the EU to act as a unitary actor in international negotiations, unanimous voting in the Council of Agriculture Ministers in agricultural issues, and the restricted autonomy of the negotiators. The need for the EU to act as a unitary actor in international negotiations and unanimous voting in the Council of Agriculture Ministers in agricultural issues significantly restricted the win-set of the EU during the WTO negotiations because it was a difficult process for the EU to sustain a consensus among member states on the terms of a given agreement and to create a firm negotiating position at Level I. The

restricted autonomy of the negotiators stems from the separation of negotiating powers and ratification authority, from the close monitoring and direction of the Commission during the negotiations by the member states through the Article 133 Committee, and lastly from the attitudes of the member state holding the presidency of the Council of Ministers towards agricultural liberalization.

In the case of the United States, the institutional factors that restricted its win-set at Level I negotiations and slowed down agricultural reform are the limitations on the autonomy of the negotiators because of the separation of negotiating powers and the ratification authority between the executive branch and the Congress. Since the Congress is highly protectionist and the US Constitution gives a critical veto power to a small group in the Senate during the ratification of an international treaty, the negotiators are constrained in their initiatives during Level I negotiations.

In addition to the institutional structure through which an international treaty is negotiated and ratified, the other factor that affects the size of win-sets and the likelihood of international cooperation is the preferences and possible coalitions at the domestic level. Both in the European Union and the United States, the preferences of agricultural interest groups play a crucial role in restricting their win-sets at Level I negotiations because decision-makers' concerns for maintaining or promoting their positions in the domestic political arena lead them to calculate the considerations of their constituencies in determining their positions vis-à-vis changes in agricultural policies. There are four main factors that enable the agricultural interest groups to be effective on the decision-makers during the agricultural policymaking process and thereby to restrict the win-sets of the EU and the US in Level I negotiations: the election rules, strong mobilization of agricultural interests, lack of effective lobbying for the removal of

existing protectionist agricultural policies and public perceptions about agricultural policies.

Both in the European Union and the United States, electoral rules favor rural districts and provide farm groups with the opportunity to use their political power beyond their numbers so as to play a critical role in elections. Therefore, because of their domestic political concerns the decision-makers take the preferences of farm groups into account when introducing policies that would affect the interests of these groups.

The second factor that gives the agricultural interest groups the opportunity to influence the agricultural policymaking process is their strong mobilization. Both in the EU and the US, agricultural groups are represented by strong organizations that have broad membership and a great deal of resources for lobbying. In both contexts, as indicated by Mancur Olson, a “privileged group” among farmers lobbies on behalf of all producers because it has important stakes in agricultural supports; “selective incentives” such as services, discounts, patronage dividends; and their “insider group status” in the policymaking process are the reasons behind the strong mobilization of agricultural groups. The strong mobilization of agricultural groups gives them the capacity to effectively lobby the decision-makers for promoting their interests. In contrast to the agricultural groups, taxpayers and consumers who bear the costs of protectionist agricultural policies in general do not get mobilized to change these policies because the diffusion of the costs of these policies reduces the incentives for mobilization. This lack of effective lobbying for the removal of existing protectionist agricultural policies operates as another factor that strengthens the agricultural groups in the policymaking process. The last factor that provides the agricultural groups with the opportunity to promote their interests in the policymaking process is the perceptions of the public about

the agricultural sector. In the European Union and the United States, agriculture is conceived in terms of a broad framework including food safety, job security and even national security. Hence, the majority of the citizens in the EU and the US support agricultural programs. The worries of citizens about these issues play a significant role in the continuation of protectionist agricultural policies because those groups that want to maintain their interests in agricultural policies use the perceptions of the public as a tool for maintaining the status quo in these policies.

In sum, the election rules, strong mobilization of agricultural interests, lack of effective lobbying for the removal of protectionist agricultural programs and public perceptions about agricultural policies give agricultural groups in the EU and the US the capacity to influence decision-makers and to shape agricultural policies along their interests. Hence, together with the institutional process, the pressure of agricultural interest groups at the domestic level for continuing agricultural protectionism significantly restricts the win-sets of the EU and the US in Level I negotiations and therefore reduces the prospects for the liberalization of agricultural trade. This has been the case during the Uruguay Round and the ongoing Doha Round as together with the institutional mechanisms, the pressures of agricultural groups in the context of the EU and the US have slowed down the progress towards international agricultural reform. In this way, the dynamics at the domestic level of the EU and the US have been reflected upon the Level I negotiations. In order to respond to the pressures at the domestic level the EU and the US pushed for their own agenda at Level I negotiations during the Uruguay Round and shaped the final agreement along the interests of their agricultural sectors. They integrated certain provisions into the three parts of the Agreement on Agriculture so that even though they continued to heavily subsidize their agricultural

commodities and restricted access to their agricultural markets, they could claim to be complying with the WTO disciplines without alienating domestic agricultural interests.

To begin with, in the first chapter of the Agreement on export subsidies, the EU and the US benefited from high export rates in the base period according to which reduction commitments are set, and also from the opportunity to carry over their unused export subsidy opportunities from one year to the next. In addition, the US benefited from the exclusion of the main item in its export subsidy programs, export credits, from the WTO disciplines. Through these provisions on export measures both the European Union and the United States could protect their previous export subsidy levels and even increase them as in the extension of export credit and marketing promotion programs of the US.

In the second part of the Agreement on market access, the EU and the US used high bound tariffs according to which reduction commitments are determined and the flexibility to arrange tariff reductions across product groups by applying larger tariff reductions in products that already had lower tariffs and smaller reductions for politically sensitive products. Moreover, by using specific duties, the special safeguard provision, tariff escalation and tariff rate quotas as trade barriers, they could restrict access to their agricultural markets.

In the third part of the Agreement on domestic subsidies, the EU and the US benefited from the blue and green box categories and the exemption of subsidies under these categories from Aggregate Measure of Support (AMS) reduction commitments. The proponents of these categories argued that blue and green boxes included subsidies that were partly or fully decoupled from production; therefore, they would not distort trade or production or would cause minimal distortion. However, as mentioned in the

third chapter, these subsidies do distort agricultural trade. The EU and the US decoupled most of their subsidies from production and shifted their domestic subsidies into the blue or green boxes. In this way, they could continue to support their agricultural sectors through subsidies that comply with WTO regulations. In addition, since the AMS reductions were not set as product-specific, both the EU and the US preserved their domestic subsidies and even increased them as long as they fulfilled their reduction commitments in aggregate support of measure. Furthermore, the Peace Clause in the Agreement provided a shelter for the domestic subsidies because it exempted them from being subjected to the countervailing duty process or the normal dispute settlement process.

In sum, the provisions integrated into the three parts of the Agreement helped the European Union and the United States to respond to pressures at the domestic level because through these provisions they could continue to preserve their export and domestic subsidies and restrict access to their agricultural markets. In this way, they did not alienate domestic agricultural interests even though they complied with the WTO disciplines on agriculture.

During the Doha Round, the EU and the US followed certain strategies similar to those in the Uruguay Round. With respect to the domestic subsidies, they continued their insistence on the blue and green box categories and rejected restricting subsidies under these categories in specified limits. In addition, the EU used the notions of the multifunctional role of agriculture, sustainable development and rural development as the basis of its negotiating position during the Doha Round. These strategies are crucial in terms of trade liberalization in agriculture because these concepts may be used as a pretext for continuing agricultural supports and policies that restrict market access and

therefore they may impede the progress towards agricultural reform. In the Hong Kong Ministerial of the Doha Round in December 2005, the WTO members approved the elimination of agricultural export subsidies until 2013. However, even though this is a significant step in terms of agricultural trade liberalization, removing export subsidies will not prevent the WTO members from subsidizing their agricultural exports because as argued in the third chapter, as long as blue and green box subsidies continue without any specified limits for their total amount, they will operate as implicit export subsidies for agricultural commodities.

To sum up, during the Uruguay Round and the Doha Round, the European Union and the United States were under the pressure of the dynamics at the domestic level as they were constrained by the institutional process through which international agreements are negotiated and ratified and by the pressures of domestic agricultural groups. To respond to these pressures and to satisfy domestic demands the EU and the US integrated certain provisions into the Agreement on Agriculture which enabled them to comply with the WTO disciplines on agricultural trade liberalization without alienating their constituencies. During the Doha Round, the EU and the US followed similar strategies and shaped the negotiation process according to their agenda so they could avoid committing to introduce policies that would bring about the necessary changes in their agricultural sector for trade liberalization. In this respect, the dynamics at Level II and Level III in the context of the European Union and the United States significantly influenced the negotiating process at Level I and restricted the win-sets of the EU and the US; in this way, these factors operating at the domestic level reduced the chances for international cooperation and thus impeded the progress towards agricultural reform on a global scale.

The bargaining process during the WTO negotiations did not operate in a single direction – the factors at Level II and Level III influencing Level I negotiations. The dynamics of Level I also put pressure on the bargaining process at Level II and Level III. Hence, the negotiations for agricultural reform were shaped according to the interaction of the dynamics at these three levels. Therefore in this process, besides responding to domestic pressures through certain strategies at Level I, the European Union and the United States also responded to international pressures to reform their protectionist agricultural policies. For this reason, although motivated by some other reasons as well, the EU carried out three successive reforms in the Common Agricultural Policy – the 1992 MacSharry reforms, the Agenda 2000 reforms and the 2003 reform. In the framework of these reforms, the EU decoupled its domestic subsidies by shifting them into the blue or green boxes and reduced price supports that were provided by import levies or export subsidies. Although one of the reasons for these reforms was the concerns of the EU to weaken the international pressures at Level I, the Union tried to strike a balance in shaping these reforms because as indicated above, it was not only under the pressure of the demands of its negotiating partners in the WTO but also under the pressure of institutional constraints and strong agricultural interests at the domestic level. Hence although the EU introduced three reforms in the CAP, these reforms did not change the fundamental nature of EU's agricultural policies because the Union has continued to heavily subsidize its farmers and to restrict access to its agricultural market.

As the EU, the United States applied certain policy changes in order to respond to pressures during Level I negotiations. Through the 1996 Freedom to Farm Act (FAIR) the United States introduced certain policy changes, such as eliminating target prices, replacing them with decoupled historical entitlements and reducing the total amount of

agricultural supports, which were oriented towards the liberalization of the agricultural sector. However, with the 2002 Farm Security and Rural Investment Act the US reversed this process and strengthened its protectionist agricultural policies, because this Bill increased the domestic supports of the US almost by 80 percent and re-coupled certain subsidies by allowing the updating of base acres and payment yields.

In conclusion, the process in the WTO agricultural negotiations has not operated in a single direction; on the contrary, it has been shaped along the interaction of the dynamics at the different levels of the bargaining process. On the one hand, the EU and the US have been exposed to pressures at the domestic level and on the other hand, to international pressures at Level I. During the two rounds of WTO negotiations, the EU and the US have acted under the restraints of these different levels and as indicated by Robert Putnam, the negotiators have tried to satisfy both the domestic and international demands. For this purpose, both the European Union and the United States followed certain strategies that complemented each other to neutralize pressures at these different levels of bargaining. At Level I, during the Uruguay Round negotiations, the EU and the US integrated certain provisions into the three parts of the Agreement on Agriculture through which they fulfilled the requirements of the WTO disciplines without significantly altering their agricultural policies. Through the provisions of the Agreement on Agriculture on export measures, they continued to subsidize their agricultural exports. The provisions of the Agreement on market access allowed them to restrict access to their agricultural markets. Lastly, the provisions on domestic subsidies provided them with the opportunity to continue their domestic support programs and even to increase their total amount without breaching the requirements of the Agreement. During the Doha Round, the European Union and the United States

followed strategies similar to those in the Uruguay Round, and although the Doha Round was launched as a developmental round that would specifically address the problems of developing countries, they shaped the agenda of the negotiations according to their concerns and interests. At the domestic level – at Level II and Level III - both the European Union and the United States introduced certain reforms to weaken the international pressures on them. However, these reforms did not change the fundamental nature of their agricultural policies because they complemented their strategies at Level I so as to enable them to neutralize the pressures at all levels of bargaining by complying with WTO regulations on agricultural trade liberalization while continuing to protect and support their agricultural sector. As a result of these strategies of the two key players of global agricultural trade and the WTO negotiations, until this date not much progress has been made in terms of a comprehensive agreement that will lead to trade liberalization in international agricultural trade.

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