# Against all Odds – Implications of the Introduction of the Milk quota for Theories of European Integration

## Bachelor Thesis

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# 1. Introduction and Research Question

With the current debt crisis the European Union (EU) appears at the brink of despair. The EU has been unable to solve this problem since 2009, moreover the problem seems to worsen. Currently realist theories which see „financially powerful member states coerce and impose changes on weaker member states“ (Donnelly, 2014, p. 980), feel that they have unmasked the EU as an international organization without much supranational power at all. If one takes a look at history however, it is apparent, that unfolding events have often proven or disproven theories. Within just a few years the situation can change dramatically. These developments take place in a wider context. It is not just multiple nations, but multiple actors on local, national and supranational levels whose actions contribute to change. They are also not restricted to the field of politics. Influence from economy, technology and society can play a major role as well. This complexity grows when taking into account that these developments unfold over time, sometimes change may even evolve slowly over decades.

Explaining how and why these developments take place is of crucial importance for the European Union. Awareness of mechanisms of change allows policy makers to steer developments in the right direction. Theories of European integration try to achieve just that. However, only few theories of European integration draw their conclusions, while taking the whole complexity of the system of the European Union into account. Especially policy change seems to be an event, which theories of European integration struggle with. Multi-Level-Governance approaches have acknowledged the importance of taking multiple levels of governance and multiple actors into account. However, to explain unfolding developments it is absolutely critical to take the temporal dimension into account. Paul Pierson’s image that "attempts to cut into ongoing social processes at a single point in time produce a "snapshot" view that is distorted in crucial respects" (Pierson, 1998, p. 30) illustrates this need. Pierson has applied historical institutionalism to European integration and puts emphasis on the temporal dimension. However his theory drops critical elements of historical analysis and is therefore unable to explain reversal of policies or incremental change. Of course theories always have to drop certain aspects to be still be meaningful, however they still need to be capable to explain cases of high relevance.

How does change of policies happen in the European Union? Which factors push EU policy makers over the barriers against reform?

To answer these questions I will analyze the history of the Common Agricultural Policy (CAP). The CAP is the EU's most important common policy and consists of a large part of the EU's budget. (Commission, 2009) It was especially important during the early history of European Integration, since 52,7% of the European Communities (EC) legislative output between 1958 and 1965 were related to the CAP. (Knudsen, A.-C. L., 2009, p. 3) The CAP was at the heart of the European Integration process through the 1960s, with France being granted the system of common support for farmers, integration of agricultural markets and common standards in agriculture, in return for integration elsewhere. (Ludlow, 2009) It has lived through crises and undergone significant change. However the CAP can hardly be described as a single unit, since it is such a large policy field. Instead I have chosen to focus on the

introduction of the milk quota in my examination. Milk is especially important as it was the major problem in the CAP crisis of the 1980s (Commission, 1981, p. 17) and has stayed relevant in political discussions and policy making since then. With milk production growing faster than the demand for milk, the dairy sector started producing surpluses. These posed a relevant problem to the EC. Milk which could not be sold on the market, was bought by the EC at a guaranteed minimum price. Overproduction led to the formation of large intervention stocks of skimmed milk powder and butter (see Annex 1), which were disposed of at huge costs through the subsidization of sales. I will use this case study to propose changes to current theories of European integration, to enable theory to capture how policy change in the EU develops.

Therefore section two explores how historical institutionalism as a theory of European integration, which puts emphasis on historical analysis is developed. It puts emphasis on its ability to explain policy change in the EU. In section three of this paper it is shown that agriculture in Europe in the mid-twentieth century was characterized by small farms. Agricultural and dairy production were dominated by economic and technological developments. Farmers built well-organized interest groups with the capability of blocking reforms. The third section shows that these developments led to the establishment of the CAP and the system of minimum prices, which is backed by the Community-wide idea of agricultural exceptionalism. The following section shows the structure and development of the dairy sector, which is dominated by inefficient small-scale farms. It argues that the emergence of massive surpluses in the dairy sector can be attributed to increased productivity and economic incentives to raise production through EU policy. In the fifth section it is argued that endogenous factors, such as economic incentives to increase production, and exogenous factors, such as social change, led to a budgetary crisis, a clear proposal for change by the Commission, and the fragmentation of farmer interest groups on the issue. This combination enabled change in a policy field which has resisted significant changes for decades. Thereafter the system of milk quotas is described and the significant change that it brings. In the conclusion it is argued that historical institutionalism, as well as European Integration theory in general, needs to pay more attention to broader historical developments. The role of endogenous factors, ideas and crisis must play a stronger role. “Critical junctures” appear as an artificial concept which does not commonly apply. The theories of European integration need to diversify and take more gradual policy shifts into account. In the conclusion the mechanism of *layering* is suggested as a way to describe the change, which took place in the case of the milk quota. If applied to European Integration, this mechanism can serve way to strengthen theory.

## 2. Historical Institutionalism as a Theory of European Integration

In order to contribute to explaining policy change in the EU this work will suggest changes to theories of European integration, while employing the method of historical analyses. The basis to any attempt at explaining policy change in the European Union through historical methods is Paul Pierson’s appliance of historical institutionalism to European integration. His theory revolves around member states not being able to reverse policies, once they are implemented. He argues that “gaps” between the preferences of the member states and European law emerge. These gaps

emerge in a variety of ways. Since the EU has a large issue density, policy makers are often not conscious about every law they pass – therefore policies may be introduced unintended. A policy may also be interpreted differently at a later point in time than at the point of introduction. A policy can also due to developments over time be subject to unintended dynamics thereby producing unintended results. He does acknowledge, that these gaps "have some limit," (Pierson, 1998, p. 52) meaning that unintended policy consequences can generally be reversed. He discards this possibility as one of less importance as "such compensatory steps (...) are likely (...) rare" (Pierson, 1998, pp. 52–53). This is due to sunk costs and high institutional barriers against reform, in the EU actors often have to decide unanimously to reverse a policy. The theory is driven by the concept of path-dependency saying that "paths taken" at certain junctures lead to "lock-in" effects through positive feedback or increasing returns, which further strengthens the idea that change is the exception. Pierson explores several institutional effects which emerge over time. This analysis concludes that supranational actors have more power in policy making then other theories suggest, and that often EU-policies develop differently over the long term then originally intended.

While Pierson's theory does well to apply methods of historical institutionalism to the systems of the EU and explains why a policy can hardly be changed, however, it does not account for the possibility of change. It also doesn't explain how change in the EU can happen. Pierson has acknowledged and described the problems of historical institutionalism such as placing a focus on the immediate causes of change (Pierson, 2000, 2004) and the lack of capability in identifying and differentiating processes of change. Historical institutionalists have worked towards explaining how change happens and advocated for the existence of "critical junctures." (Capoccia & Kelemen, 2007; Collier & Collier, 1991) During a period, which is identified as a critical juncture in hindsight, agents have more feasible options than usual and "their choices from among these options are likely to have a significant impact on subsequent outcomes" (Capoccia & Kelemen, 2007, p. 348) In these works key political institutions are constructed, which, once in place lay out an enduring logic of political development. The authors often emphasize long stretches of institutional stability periodically interrupted by episodes of relatively rapid innovation (usually accompanied by an exogenous shock - such as a war or regime change). (Thelen, 2009, p. 474) This idea has even been applied to the European financial crisis (Gocaj & Meunier, 2013; Thelen, 2009, p. 476; Verdun, 2015), but has faced criticism. Thielen for instance emphasizes change which unfolds incrementally but has transformative effect. (Thelen, 2009, p. 476) She and other scholars (Alexander, 2001; Crouch & Farrell, 2004; Hacker, 2004) have distanced themselves from the idea of path dependency and point toward other mechanisms of change. The major mechanisms of their work are layering, drift and conversion. Layering describes the process were original institutions are left in place, but new elements are added alongside the system, which have transformative potential in the future (Thelen, 2009, p. 484). Drift means, that even though an institution might not have been formally changed, the system experiences a significant drift (Thelen, 2009, p. 484). This can be the case when a law applies to a smaller or larger number of people than before. Conversion constitutes a case, were a law is not altered but interpreted differently, therefore resulting in a change (Thelen, 2009, p. 484). However, aside from the addition of "critical junctures", none of these researchers have come up

with amendments or alternatives to Pierson's theory, when explaining European Integration. They are more generally referring to institutions in capitalism. The basis of Pierson's approach is still used by historical institutionalists. (Gocaj & Meunier, 2013; Lasan, 2012; Verdun, 2015) This application may come from the fact that the EU – unlike other institutions, which researchers such as Thelen have pointed at - has high barriers against reform.

The case of the milk quota is such a case of policy change. This particular case is of high relevance to European Integration as it deals with a central policy field such as CAP. The CAP itself has followed the trend of the quota, developing from supporting farmers through minimum prices to a liberalized market with shrinking subsidies. This rise of EU neoliberalism in agriculture isn't directed by some central authority from the outset. It is rather co-constructed by the complex field, and actors involved, in dealing with unintended policy consequences. Change happens from within through a complex interaction of institution endogenous and exogenous factors. The case study shows how more incremental policy change happens and enables the appliance of new mechanisms of change to historical institutionalism as a theory of European integration.

## 3. European Agriculture and Milk in the mid-twentieth Century

The milk quota was necessary due to developments in agriculture and the milk sector, which date back to the mid-twentieth century. Therefore this section gives the necessary background information on this period.

The provision of food was a central motive for society in Western Europe, especially as the two world wars had shown, that food should not be taken for granted. In the mid-twentieth century agriculture was characterized by further mechanization and increased productivity. This was achieved mainly due to synthetic fertilizers and pesticides. Production levels in Western Europe grew about 50% compared to Pre-WWII levels, while the population only grew by 20%. (Knudsen, A.-C. L., 2009, p. 41) Consumption could not keep up with this growth in productivity, as agricultural production is not as flexible in responding to changed demand as industrial production. (Food and agriculture organization of the United Nations, p. 131) France, Germany, Great Britain, and the Netherlands emerged as Europe's most important milk producers (see figure 1). These surpluses were especially taxing on France and the Netherlands as they were producing large surpluses, while other states, such as Germany, were importing dairy products. Even though production was high, most farms were small in scale at this time and weren't fully industrialized. In the dairy sector most of the farmers' herd size was below 20 cows.

Most of these small-scale farms were run by families. A farmer's job determined his life as he didn't have regular working hours. He worked as much as needed to keep the farm running, often together with his family who depended on the income from the farm. Dairy farmers were mainly engaged in milk production. The home production of milk products such as butter and cheese had been taken over by industrial companies. In food politics milk acquired a central role, it was promoted for its nutritional value and had been used to achieve food security via school milk programs. (Rytkönen, p. 26)

Farmers raised their production not only because of the technological developments, but also due to economic incentives. Low population growth in comparison with high

growth in production led to low prices. This was contrasted by sharply rising incomes in metropolitan areas, which resulted in an income gap for farmers. The farm income gap was addressed in most European countries through laws that put in place systems of guaranteed prices such as the German Landwirtschaftsgesetz and the French Orientation law (1960). (Knudsen, A.-C. L 2009, p. 45) This meant that farmers could sell most of what they produced. The income gap, however, remained, especially as young and educated people left the farming sector. However, these gaps weren't large enough to raise prices which would then close the farm income gap.

There was a reason for these farmer favorable laws. Farmers were organized on the political level. They formed well-organized interest groups. In Western Europe, farmers' interest groups had established themselves in an influential position in domestic agricultural decision-making, through formal and informal links to public administration and politicians. (Germond, 2013, p. 108) In 1958 a European community-wide agricultural interest group (COPA) was founded, followed by its sister organization (COGETA), an interest group for cooperatives, in 1959. These two groups were closely interlinked and even merged their secretariats in 1962. (Germond, 2013, p. 108) Lobbying in the EC was a two-level game. On the national level farmer-interest groups tried to influence members of government, who would then be able to influence EU legislation in the Council. On the European level national interest groups, which often had an office in Brussels, as well as COPA lobbied the Commission, the European Parliament and Council officials. Influence was also gained by offering expertise. Throughout the 1960s and 1970s COPA was pretty much the sole source of technical advice on agricultural policy for the Commission. (Germond, 2013, p. 110) This position was challenged in the 1970s by the emergence of other well organized agricultural interest groups. However, COPA managed to secure its privileged position by signing an agreement with the ECA and the IFAP, other farm organizations, which established COPA as the "sole legitimate interlocutor in relation to the Community authorities." (Germond, 2013, p. 111) By the 1980s COPA had established itself through a wide range of formal and informal contacts with the Communities legislative bodies. (Germond, 2013, p. 110) They could even effectively organize large-scale rallies in case lobbying failed. The milk sector was particularly important to farming organizations, as many small scale farms were extremely reliant on their income through dairy products. Every measure which would lower farmers' income in the dairy sector was fiercely opposed by farmers' interest groups, since it would mean that these farmers would have to go out of business as they were operating at a level with little room for cuts in income. (Germond, 2013, p. 117) Through well-organized opposition to reforms, farmers' organizations were able to reduce the scope of any attempt at large-scale reforms of the dairy sector throughout the 1960s and 1970s. (Germond, 2013, p. 117) For COPA the surplus problem posed a secondary problem, much more relevant then the comparably chronically low farmer incomes.

As we could see, the agricultural sector underwent technical development in the mid-twentieth century. Agricultural production and productivity rose more than consumption. Lower demand than production meant that farmers faced the problem of low incomes, which was addressed by new policies. They also formed strong interest groups, which were capable of bringing this issue on the political agenda.

# 4. The Introduction of the Common Agricultural Policy

Agricultural protection through high tariffs and minimum prices has a long tradition in Western Europe. (Thiemeyer, 2009, p. 53) States have been intervening in markets to achieve food security since World War I and after World War II state intervention into agricultural markets to secure farmer incomes became a widespread phenomenon. To open up markets and lift pressure off of its own agricultural welfare system, France pushed for a common agricultural market. This market was meant to be able to absorb the agricultural surplus. (Thiemeyer, 2009, p. 55) European agricultural integration was first proposed in 1950. The proposal following Green Pool negotiations about the establishment of a common market for agricultural products, however, failed in 1954. In 1955, another attempt was made, resulting in CAP being part of the Treaty of Rome in 1957. (Thiemeyer, 2009, p. 47) Article 39 of the Treaty on the Functioning of the European Union (TFEU) set out the specific objectives of the CAP: Increase agricultural productivity by promoting technical progress and the optimum use of the factors of production, a fair standard of living for farmers, stabilize markets, achieve food security, and enable reasonable prices for consumers. These goals have remained constant even when they counteracted each other. This can be explained by the fact that the Council of the European Union/Community (Council), as the strongest legislative body of the EC/EU, is made up of national politicians who have their own national interests in mind. Therefore, the EC encouraged rises in productivity even when it was apparent that farmers were producing a surplus (e.g. Council Directive 72/159/EEC which aimed to modernize farms), since many of these politicians were dependent on the agricultural vote.

The introduction of the CAP was due to widespread common policy goals towards agriculture across Western Europe. Self-sufficiency was seen as one of the major policy objectives. The experiences of World War II and the Cold War made food security desirable, as countries could not rely on food from overseas in the event of a military conflict. (Patel & Schot, 2011, p. 387) There was also a social component to the CAP: Farmers had been fallen behind in income in comparison to the workers in services and industry and the CAP aimed at supporting them. (Knudsen, A.-C., 2009) On an ideological level, the emergence of the CAP was justified by the idea of agricultural exceptionalism, with the model of the family farm at its core. (Knudsen, A.-C., 2009) Agricultural exceptionalism meant that agriculture was attributed a special role in society and politics. "Agriculture was regarded as exceptional because, firstly, farming is a hazardous enterprise, subject to unique and uncontrollable factors resulting from the vagaries of the weather and markets, and secondly, it contributes to essential national goals of securing food supply". (Elton, 2010, p. 106) Also, since most European states had already introduced laws to support farmer's income, policy makers and people regarded price support for agricultural products as normal – agriculture was a sector in which market rules should not apply and the state needed to intervene to stabilize the market. The birth of the CAP reflected this generalized western European belief that the state had to step in to support farmers income. (Ludlow, 2009, p. 84)

The CAP becoming such a central policy field can be attributed to a mixture of good timing and a unification of actors in the sector which pushed for European integration. (Patel & Schot, 2011) Additionally, there was no considerable opposition. Germany, which, considering it incurred economic losses from the CAP,

would have been the most likely veto player, supported French interests in agricultural integration in order to gain French support for European Integration, one of its main political goals in the 1950s and 1960s. (Thiemeyer, 2009, pp. 55–56)

The CAP's emergence is due to Western European states sharing the same goal for agricultural policies. Agricultural exceptionalism and the need for food security justified income support for farmers. On a political level the actors of the sector united and pushed for the CAP. Opposition did not arise due to package deals. The goals of the CAP are food security, protection of farmer incomes, modernization and reasonable consumer prices.

## 5. The Dairy Sector and the Emergence of Surpluses

The dairy sector followed the path of the development of agriculture in Europe. However, a lot of the developments that happened in agriculture were pushed to the extreme in the dairy sector.

For the dairy sector raw milk is the main product, of which most is then processed into drinking milk, butter, cheese, and milk powder. (Baere, 1979, p. 3) Milk was, by sheer weight of product, the most important agricultural product of the EC. The member states produced 104.5 mio. tonnes of milk in 1976 compared to 20.5 mio. tonnes of meat, 9.7 mio. tonnes of sugar, and 90.2 mio. tonnes of cereals. (Eurostat, 1977, p. 5) As milk was not as valuable as other products, it accounted for one fifth of the value of agriculture production in the EC (Baere, 1979, p. 3) and was promoted by the states for example through school milk programs.

Table 1: Dairy Farm structure in the European Community in December 1977 by herd size

| | Number of dairy cows in % | | | | |
|---|---|---|---|---|---|
| Member State | Fewer than 10 cows | 10-20 cows | 20-29 cows | 30-49 cows | Above 49 cows |
| Germany | 58,2 | 28,1 | 9,3 | 3,8 | 0,6 |
| France | 47,4 | 32,1 | 13,2 | 6,1 | 1,2 |
| Italy | 86,1 | 7,9 | 2,9 | 1,8 | 1,3 |
| Netherlands | 21,7 | 21,7 | 19,3 | 22,8 | 14,5 |
| Belgium | 39,4 | 33,3 | 15,2 | 10,6 | 1,5 |
| Luxembourg | 25 | 25 | 25 | 0 | 25 |
| United Kingdom | 16,7 | 13,4 | 14,3 | 22,3 | 33,3 |
| Ireland | 58,3 | 20,1 | 9,9 | 7,5 | 4,2 |
| Denmark | 28,6 | 32,1 | 17,9 | 16 | 5,4 |
| Community | 56,9 | 23,6 | 10,1 | 6,3 | 3,1 |

Source: Own calculation based on (Baere, 1979, p. 3)

The milk market in the beginning of the 1980s was characterized by differences in developments. Most of the farms in the European community were small, as depicted in Table 1. More than half of the dairy farmers (56,9%) had fewer than 10 cows. While the average number of cows per farm in 1977 was 13, (Baere, 1979, p. 6) the size of the farms varied extremely. At one extreme, 10 % of dairy farms held 39 % of dairy cows and at the other, nearly 60 %, of all dairy herds had less than 10 cows.

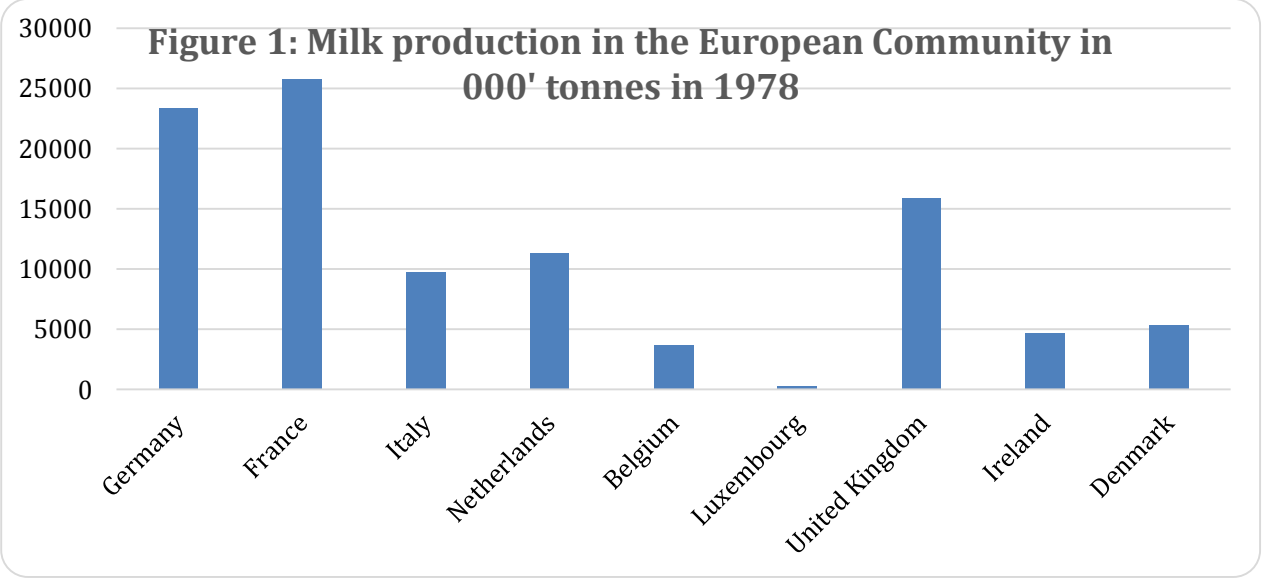
(Directorate-General for Agriculture, 1981, p. 17) This held true across countries. While the Netherlands and the United Kingdom boasted a large percentage of big holdings and only few farms with fewer than ten cows, in Italy, in Germany and Ireland more than 50% of holdings had a herd size below 10 cows. These small farms were often family holdings where the dairy income made up the most of what the family earned. (Baere, 1979, p. 3) Most of the small farms did not employ modern farming methods, resulting in lower yields per cow, as illustrated in Table 2. Countries with low amounts of small scale farms, such as the UK and the Netherlands, produced high yields, while countries with a significant number of small scale farmers, such as Ireland and Italy, tended to produce smaller yields. The number of full-time farm workers in the Community had been reduced by nearly 9 million between 1960 and 1978. (Directorate-General for Agriculture, 1981, p. 4) This development continued even in times of economic crisis where employment in other sectors was unlikely. (Baere, 1979, p. 7) The milk yields had been on a constant rise due "to the widespread consumption of compound feeding stuffs, to the modern milking parlours and to efficient cattle selection and disease control measures." (Baere, 1979, p. 9) Increases in production were also a necessity, especially for small-scale farmers. In Germany, for instance, between 1970 and 1977 the milk price fell by about 15 %. (Directorate-General for Agriculture, 1981, p. 4) This put pressure on farmers to produce more milk to uphold their standard of living.

Table 2: Average milk yield per cow in the community 1974-1978 in kg.

| | 1974 | 1975 | 1976 | 1977 | 1978 |
|---|---|---|---|---|---|
| Belgium | 3543 | 3632 | 3610 | 3690 | 3860 |
| Denmark | 4175 | 4352 | 4561 | 4622 | 4900 |
| Germany | 3921 | 4006 | 4108 | 4180 | 4320 |
| France | 3241 | 3207 | 3260 | 3296 | 3340 |
| Ireland | 2946 | 3061 | 3167 | 3264 | 3330 |
| Italy | 2946 | 3061 | 3167 | 3264 | 3330 |
| Luxembourg | 3468 | 3397 | 3751 | 3658 | 3860 |
| Netherlands | 4567 | 4614 | 4777 | 4830 | 5130 |
| United Kingdom | 3925 | 4091 | 4427 | 4571 | 4770 |
| Community | 3576 | 3648 | 3770 | 3840 | 4000 |

Source: (Baere, 1979, p. 3)

The biggest milk producers, as illustrated in Figure 1, were Germany (which had caught up in production and had been an export country for milk since 1967) and France. Together they accounted for about half the produced milk. The industry for processed milk products has been industrialized so that fewer dairies (between 1965 and 1978 -20%) were processing 30% more milk. (Baere, 1979, p. 12)




Own Illustration based on: (Baere, 1979, p. 3)

While well-organized technology-intensive private companies started to grow rapidly in their national markets, cooperatives, on the other hand, which had emerged during the 19th century, remained the strongest players in European dairy markets. (Rytkönen, p. 27) Through these cooperatives, organized small-scale farmers could compete with larger farms.

On a technical level the surplus in the milk sector emerged largely due to higher yields. The dairy cow numbers remained constant at around 25 million since 1960, whereas average yields rose by over 33 % from around 3,000 kg in 1960 to about 4,000 kg in 1979. (Directorate-General for Agriculture, 1981, p. 3) The EC's herd size stayed constant because a large number of farmers left the agricultural sector and other farmers grew their herd size. Another structural development was the rise of dairies which turned skimmed milk, a byproduct of butter production, into skimmed milk powder instead of using it for animal feed as it had been used on the farm. (Baere, 1979, p.12) Skimmed milk powder was one of the products the community bought at intervention prices. At the same time, however, consumption was stagnating. (Directorate-General for Agriculture, 1981, p. 3)

In addition to structural causes of the rise in production, there were economic incentives for surplus production. Dairy products were bought by the European Community's intervention agencies at fixed minimum prices. This system ensured the dairy industry an unlimited market. (Commission, 1987) The resulting surplus posed a problem to the EC, since the system of guaranteed prices meant that the EC had to buy excess milk, resulting in large stocks of butter and skimmed milk powder, the only two milk products that can be stored. For example, for most of the 1970s and 1980s, surplus stocks grew to well over 200,000 tonnes (see annex 1). Disposing of these stocks was usually only possible via special measures which, together with storage and marketing costs, meant that deposing excess products could cost up to 80% of the products' cost. (Baere, 1979, p. 14) Most of the skimmed milk powder was used for animal fodder, where it competed with considerably cheaper soy feed. Butter was sold to the food industry, where it had to compete with significantly cheaper vegetable fats. Some of the surplus was disposed of through subsidized

exports. However, there was a surplus production in the dairy sector worldwide and therefore prices on the world market were low. Most of the surplus was disposed of in communities markets. These disposals were costly: In 1984, the dairy sector absorbed almost 40% of the guarantee section of the European Agricultural Guidance and Guarantee Fund (EAGGF). (Germond, 2013, p. 115)

Politicians and the media both recognized the ensuing crisis (Wagner, 1984; Petit, 1987, p. 33; SPIEGEL, 1980) and even farmer interest groups started to realize, after refusing substantial change throughout the 1970s, "that the criticism made of the CAP could not be disposed of merely by reiteration of traditional positions, and that there would have to be greater readiness in the future to accept newer and more flexible methods of operating the system." (Germond, 2013, p. 121)

The dairy sector was characterized by different sizes of farms in different stages of technological development. As a whole the sector produced surpluses due to productivity rises because of technical development and production rises due to economic incentives. These surpluses posed a significant problem for the community, as it was cost intensive to store and dispose of intervention stocks.

## 6. The Introduction of Milk Quotas

The European Community attempted to tackle the surplus problem through various policies, such as freezing the milk target price from 1968 to 1971 (Commission, 1987, pp. 9–10), or by introducing a 0.5 % co-responsibility levy in 1977 which was then increased to 2.5% in 1983. The European Commission had pushed for cuts in milk production through lowering financial incentives for milk production since 1973, and suggested penalizing dairies whose production mostly went into EU intervention stocks. (Commission, 1987, p. 11) Already in 1976, the Commission theorized about the application of a production quota system, however, it feared the inequalities the quota might produce, that it would be hard to operate, and that the system wouldn't adhere to the EC's free trade ideals. (Commission, 1987, p. 17) All of the Commission's proposals either didn't provide enough incentives to lower production when implemented or were not applied. In 1981, the Council even increased price levels due to rising world market prices for cereals and dairy products which pushed down intervention costs. The total budget cost for intervention went down from 4752 million ECU in 1980 to 3342.7 million ECU (1981) and 3327.7 million ECU (1982). An additional incentive to increase price levels was that farm income had been steadily declining in several member states.

World market prices only remained favorably low for two years. A number of researchers (Moyer & Josling, 1990; Petit, 1987, p. 26) believe that budgetary constraints were the main driving force for agricultural policy reform. From a legal standpoint, these budgetary constraints were due to the balanced budget rule. The balanced budget rule set a maximum for spending of the European Community, as it could not raise its own taxes, the EC depended on the member states for financing. "Spending rose through the own resources ceiling, requiring additional payments from member states in those two years simply to allow the EU to continue to function and fulfil its policy obligations." (Ackrill, 2000, p. 7) The dairy sector alone accounted for intervention costs of 3.3 billion ECU in 1980, 4.4 billion ECU in 1983 and 5.8 billion ECU in 1984. (Petit, 1987, p. 26) Total market intervention costs were 15.9 billion ECU in 1983. (Petit, 1987, p. 26) Therefore, milk accounted for about a

third of all intervention costs, even though it made up only one fifth of the value of all agricultural products. Unlike the normal situation, where unanimity is required to reform the status quo, in this case, unanimity here was required to keep the status quo.

From a political standpoint, budgetary constraints derived from the unwillingness of the member states to expand the community's budget. Great Britain in particular withheld support for a larger budget unless agricultural spending was cut. (Moyer & Josling, 1990, p. 70) Germany also strongly favored more budgetary discipline. This hard stance for lower agricultural spending was possible due to a change in the perception of agriculture and the dairy sector. While through the 1960s and most of the 1970s the idea of agricultural exceptionalism prevailed, by the 1980s this idea faced considerable pressure. First, in the 1980s, the CAP and farming had a highly negative public image due to the sharp rise in expenditure and the environmental damage caused by intensive farming. (Knudsen, 2009, pp. 204–205) Second, the agricultural welfare state had lost its exceptional role. European welfare states had expanded during the 1960s and 1970s. Farmers were just one of many groups which received state subsidies. It had, therefore, become just one of many welfare systems instead of the main welfare system justified by its exceptionalism. Simultaneously, the raw agricultural product had lost its original value. Agricultural products used to be closely connected to farming as they were shipped directly to consumers. However, they had taken the place in the beginning of a product chain at which end stood processed food, chemical or energetic products. Third, by 1983 the CAP was still a central component of the European Integration process, however, it had lost its central position and was increasingly seen as an inheritance of the past and not a vital part of the future, (Ludlow, 2009, p. 93) therefore driving EU policy makers to rein in CAP spending. These developments were intensified by high unemployment and economic recession during the beginning of the 1980s. During more economically stable years, the CAP had been easily affordable for the member states; in times of low tax income, however, it was hard to justify the large expenditure for overproduction. Therefore, in 1983, the Council instructed the Commission to submit "concrete steps compatible with market conditions (…) to ensure effective control of agricultural expenditure." (Petit, 1987, p. 27)

The proposals of the Commission, primarily formulated by its experienced Director-General, Claude Villain (Moyer & Josling, 1990, p.71), reflect the contextual change that had taken place. The Agriculture Commissioner at the time, Poul Dalsager, did not take charge of the quota reform, as he had only become Commissioner due to the death of Finn Olav Gundelach in 1981, and appeared weaker than Villain. (Moyer & Josling, 1990, p. 71) Villain, as a leading official responsible for the CAP, had a strong incentive to get the surplus crisis under control and felt that "Europe is entitled to demand the necessary efforts of its rural community and its food industry, provided that it offers them a well-defined and stable framework." (Commission, 1983, p. 4) The tone of this statement stood in opposition to the rhetoric of agricultural exceptionalism which was still present in Commission publications at the time as evidenced by the following: "It must also be understood that the specific conditions of agriculture distinguish it from other sectors in a number of ways. For example, the fact that agricultural markets, within and outside the Community, are subject to fluctuations outside the control of the Community means that expenditure can vary unexpectedly." (Commission, 1983, p. 5) The Commission does mention

the goals of providing a fair standard of living for the agricultural community and reasonable consumer prices, however, these goals now must be pursued "at a cost, which is reasonable" and be adapted to "new realities". (Commission, 1983, p. 5) Part of these realities are that the "CAP must not ignore the consequences of agricultural activity for the industries upstream and downstream of agriculture itself. (...) (Agriculture) first provides the requisites for production and then carries food and raw materials from the farm gate to the factory, the shop and the table." (Commission, 1983, p. 7) The Commission's papers, while continuing to emphasize the importance of the CAP and the dairy sector, now places this support into a context where agriculture appears to be more one of many sectors and also accounts for its negative perception in the public. (Baere, 1979) In its COM 500 paper the Commission concludes, "(i)t cannot be the Community's aim to stop the development of its agriculture. But in view of the future perspectives, the Community has no choice but to adapt its policy of guarantees for production. (...) (I)t must increasingly accept the market disciplines to which other sectors of the Community's economy are subject. (...) (T)he price guarantees for most products have been unlimited in nature. This situation cannot continue if the CAP is to develop on a rational basis." (Commission, 1983, p. 7) The Commission now appears to clearly state that the unique treatment of agriculture as the sole sector dominated by massive state intervention cannot be sustained. The general context has undergone such drastic changes through technological, economic, social, and political developments that the Commission now supports agriculture's integration into other economic sectors and a departure from price guarantees. The Commission had not put forward such drastic rhetoric since the Mansholt plan in the late 1960s, which had failed due to resistance from farmer interest groups. That the Commission felt confident enough to take such a strong stance can also be attributed to the fact that farmer interest groups were fragmented by this point and did not have a different viable solution for the problem (see below).

The Commission did not just propose quotas but framed these as a policy without alternatives. In 1983, the Commission stated that the milk „price would have to be reduced by at least 12% for 1984/85." (Commission, 1987, p. 21) This was due to guarantee thresholds which had been introduced in 1982, which had been breached, therefore requiring price cuts. (Moyer & Josling, 1990, pp. 62–63) The price cuts were also deemed necessary because the European Union was breaching its budget, due to the surplus production in the EC, with the dairy market as the biggest problem. (Blüthmann, 1984) This was too large a price cut which, while endangering farmer's incomes, would have also probably not directly led to a reduction of the surplus as farmers would need time to adjust to the new prices. A rise of the co-responsibility levy would also have to have been differentiated in respect to different farm sizes, as small-scale farms in particular would not have been able to pay such a levy. However, the Commission deemed such a differentiated levy to be politically unviable and argued in favor of a quota system, saying that it represented the best available option.

The political environment at the time can be better understood by turning to the discussions which arose after the Commission put its proposal forward in COM 500 (Commission, 1983) on July 29, 1983. The European Council, which needed to adopt quotas for them to take effect, cannot be described as a single actor, as it is made up of delegates from each of the member states. The main actors here were the

agricultural ministers of each member state. Since the Council must reach decisions unanimously, each of the member states' interests must be taken into account and compromises must be reached. This leads to difficulties when vital interests of certain member states collide with those of other member states or with those of the EC. Negotiations were further complicated by EC enlargement (Spain and Portugal would probably soon become EC members) and Monetary Compensatory Amounts (MCAs). MCAs were subsidies and taxes applicable to intra-EC agricultural trade that should compensate for differences in currency conversions for intervention prices. MCAs were generally seen as unfair. (Petit, 1987) However, phasing out MCAs would have led to nominal price declines in strong currency member states.

The agricultural ministers at the time in most member states of the community were largely influenced by farmer organizations. (Petit, 1987, p. 40) After the Commission's proposal was presented, intensive lobbying took place in each the member states. Although one would assume that farmer interest groups would naturally lobby their agricultural ministers to stop milk quotas and maintain the status quo, they were divided on the issue. Three options to tackle the surplus problem prevailed: a higher co-responsibility levy, price cuts on milk (lower than the Commission proposed) or the introduction of milk quotas. The German Farmer's Union, the Deutscher Bauernverband (DBV), welcomed quotas as their only possible option to save the incomes of West German dairy farmers. (Moyer & Josling, 1990, p. 72) Representing 90% of West German dairy farmers (Petit, 1987, p.54), the DBV was by far the most influential agricultural interest group in Germany. Even though the member structure of the DBV was quite diverse due to the concentration of power in its long-serving president, it usually took clear positions. (Petit, 1987, p. 55) Farming unions in regions which had seen large rises in production in the last years, such as western France and northern Italy, opposed introducing quotas, (Moyer & Josling, 1990, pp. 72–73) since they would use 1981 as a reference year, hurting businesses which had experienced sharp rises in production. The most influential French organization, the Fédération Nationale des Syndicats d'Exploitants d'Agricoles (FNSEA), opposed dairy quotas as well as any measure which would threaten farmers' income, even when it became apparent at a later stage in the policy process that quotas would be introduced. (Petit, 1987, p. 40) The National Farmers' Union (NFU) in Great Britain was against quotas and lobbied for levies based on national standard quantities. (Petit, 1987, p. 102) COPA wanted to increase the Community's budget and a return to the "objective method", which fixed agricultural prices annually depending on farmers' incomes. (Petit, 1987, p. 31) This demand wasn't pressed the way COPA had previously pressed for farmer interests on the EU level (see above). COPA as an organization relied on the support from national organizations. However, since the COPA members were divided on the issue, COPA couldn't lobby for farmer issues on the European level, since its members followed diverging interests. Because of this, COPA didn't play a major role in the policy process.

Overall, the fragmentation of interest groups meant that farmers mounted no serious opposition against the milk quotas. Unlike earlier years where they had successfully averted substantial change to the system through united well-coordinated lobbying, now the majority of interest groups had accepted the need of policy change. Many organizations believed that change was inevitable and emphasized influencing policy changes so that the changes would have as little negative impact on the farmers

themselves. This approach was exemplified by Dutch farmers organizations, which mainly fought against policies which would hurt the competitive position of large intensive farms (relative to other farms), which were dominant in the Netherlands at the time. (Petit, 1987, pp. 85–87) This gave national politicians considerable room to maneuver. Even in France, where opposition to quotas was strong, in January 1984 the President of the FNCL advocated a compromise. (Petit, 1987, p. 51) This left the French Minister of Agriculture very actively pursuing a compromise.

The council adopted the proposal of the European Commission for a milk quota, stating that „quantities of milk delivered are increasing at a rate such that disposal of surpluses is imposing financial burdens and market difficulties which are jeopardizing the very future of the common agricultural policy". (European Council, 1984) The council was strongly motivated by the crisis at hand. It was especially due to the high expenditure from the dairy sector that the council found the need to act in fear of the dairy sector breaking the CAP budget. (Grant, 1997, pp. 106–107) As negotiations began, Germany was the only country strongly in favor of milk quotas. Other countries either argued for price cuts, co-responsibility levies, or didn't have feasible policy alternatives. Price-cuts were problematic as they would have to be severe to have any effect and would also not immediately result in cuts in production. Larger co-responsibility levies would have to be differentiated and would have led to discrimination against intensive farmers. Quotas on the other hand would cut production and place the burden of reform on everyone. In the end, milk quotas were agreed upon for two reasons. The other policy alternatives did not seem feasible and since the negotiation was coupled with other questions, and Germany had such a clear preference for quotas, it conceded points elsewhere.

The context laid out in the previous sections had changed and influenced the relevant actors in the policy process. The pressure on agricultural exceptionalism caused by economic and social changes, as well as the crisis at hand pushed influential interest groups to advocate for quotas. This enabled the Council, which usually voted in favor of the farmers, to make radical changes.

## 7. The Milk Quota System

The milk quota system determined total quantities for deliveries of milk to purchasers for each member state. The total milk quantity for the whole EC set by the quota was 99,024,000 tonnes. Additionally, the co-responsibility levy was increased to 3% of the target price. (Directorate-General for Agriculture, 1984, p. 12) The system also included additional "community reserves" for countries in which the introduction of the milk quota was expected to cause difficulties which could affect supply or production structures; for the 1984-1985 period, 335,000 tonnes were distributed to Ireland, Luxembourg and the UK. (Directorate-General for Agriculture, 1984, p. 12) This amount didn't include direct sales, for which extra quotas were fixed for each member state. Each member state could choose if this quota applied to dairies or to individual producers. If the amount of delivered milk exceeded the quota, a super-levy was charged on the excess milk to discourage production and to cover the cost of disposing of the excess milk. In states where the quota applied to each producer, this super levy amounted to 75% of the target price. In states where the quota applied to purchasers (the dairies), the super levy was 100% and they were required to pass the super levy on to excess producers. There were

special arrangements in place to take special circumstances into account (e.g. for young farmers or where natural disasters had caused unusually low production). (Directorate-General for Agriculture, 1984, p. 11) The quota was introduced for a five-year period beginning on April 1 1984. The reference quantity for quotas was the year 1981 plus 1% although exceptions were made for Italy and Ireland, which used 1983 as their reference year. Quotas were not freely transferable and could only be sold if the farm itself was also sold. Later, through successive reforms, quotas became more easily transferable in several member states.

Some countries chose to apply the quota to producers, while others applied the quota to purchasers. Germany, Italy, the UK, and France compensated farmers in case they decided to discontinue milk production. In Germany for instance, an amount of 1,000 DM per 1,000 kg up to a maximum of 150,000 DM per farm, payable over a ten-year period, was given out. (Directorate-General for Agriculture, 1984, p. 22) When farmers gave up their quota to receive compensation, states added that amount to build national reserves.

The milk quotas failed to immediately end the surplus problem (Commission, 1987, p. 34) as there were ways around the quota, harming its overall effectiveness. The quota system never succeeded in ending the existence of intervention stock (see annex 1). However, the introduction of quotas was a change from the status quo to the detriment of farmers. Indeed after the quota was imposed, British farmers feared that they had to cut their production by a substantial margin and had the impression that the change had been enacted overnight. (Noyes, 1984) In Britain, farmers protested against the milk quota (Young, 1984) as did their counterparts in Germany, especially in Bavaria (Birnbaum, 1984). These protests were mostly attended by farmers with smaller farms, which the German interest group advocating quotas, the DBV, had aimed to protect. The DBV had believed that restricting milk production would enable a farmer-income orientated price. (Petit, 1987, p. 62) However, the quotas came with a restrictive price policy to get budgetary expenses under control. The DBV had miscalculated quotas and moved away from supporting the policy.

Quotas remained in place until 2015. During that time, the number of dairy farmers sank and productivity increased. The CAP underwent large policy reforms in which it gradually lessened emphasis on support prices and instead turned to direct payments. Farmers were directly supported, decoupled from production. Additionally, support measures were put in place for disadvantaged farmers (e.g. for farms in mountainous areas). The EU also put emphasized supporting modernization in the dairy sector via public funding. In 2003, the EU agreed to abolish milk quotas. The abolishment of the milk quota does not mark a return to the system of guaranteed prices, however, which had let to the initial surpluses. Intervention prices have been set at a level that doesn't encourage surplus milk production. (Hogan, 2015) This means that the system of guaranteed prices has been effectively abolished. This is economically viable because European dairy producers are able to compete on the world market. The international demand dynamics which previously contributed to the surplus crisis, today serve as a reason to abolish the quota. Even farmer interest groups, such as the DBV, advocated abolishing quotas (DBV, 2015) since they were a financial and administrative burden for farmers and they see opportunities for the European dairy industry in the Asian milk markets.

The vision which the Commission put forward when proposing the milk quota in 1983 has been fulfilled. Quotas limited the system of guaranteed prices for dairy products. Even though they weren't the sole solution to the surplus problem, they brought significant change for the dairy sector. Quotas were used as an instrument in the CAP to limit production, while slowly making the agricultural policy more economic orientated. Today, the abolition of the milk quota shows the impact of world market dynamics on EU policy making.

## 8. Implications for European Integration Theory

How does any change of "locked in" policies happen in the European Union? Which factors push EU policy makers over the barriers against reform? The case of the milk quota certainly shows that change does occur. It also shows that historical institutionalism currently doesn't possess the tools to explain the occurrence of change. Critical junctures would be the best tool to describe this change. This concept, however, relies on an exogenous shock to happen. The emergence of the milk quota was by no means the result of an exogenous shock, rather it slowly became a crisis through both exogenous and endogenous factors. The most obvious cause for overcoming the "lock-in" appears to be the budgetary crisis. A crisis is a massive disruption of the social, political or economic system. (Schubert & Klein, 2006) In this case, the budgetary crisis meant that without a rise in budget, the EC wouldn't have been able to operate. The budgetary crisis instilled an urgency for policy makers that reform had to be done. The surplus crisis didn't just emerge due to the open-ended guarantee system, rather it was a caused by a combination of factors. Some of the factors were exogenous. Productivity due to technical advancements, stagnating consumption in the EU and low dairy prices across the world market weren't system inherent. Some of these factors were endogenous. The system of guaranteed prices contributed to the rising production as it gave farmers an economic incentive. The balanced budgetary rule was also an institutional-inherent prerequisite for the crisis because unanimity was required to increase spending. These secondary factors should not be overlooked, they clearly show that the crisis neither appeared only through an exogenous shock nor did it emerge only because of endogenous factors.

Budgetary pressures were not the sole factor enabling reform. The change in social context cannot be discounted. The farmer, who had once been seen as a hard worker working in harsh conditions to secure food for society, faced criticism. The large surpluses, the inefficiency of the sector on the one side and criticism from environmentalists due to the damages from intensive farming to the environment on the other side put pressure on agricultural exceptionalism. Additionally, the welfare system for farmers had lost its uniqueness and processed products had cut to close ties between farmer and consumer. This pressure massively influenced stakeholders. This is evidenced by the papers of the European Commission. The Council chose to adopt reforms, which were strikingly close to the Commission's proposals. Also even some farmer organizations didn't even push for a conservation of the status quo – which had been quite a successful strategy in the 1970s. This cannot only be attributed to the crisis. Multiple farmer organizations had perceived the social change and thought about or actively lobbied for reforms before (see above).

Of course, the impact of the crisis can't be measured empirically against the impact of social change. However, the social change did certainly more than just enhance the budgetary crisis. The MacSharry reform from 1992 which introduced a paradigm shift in the agricultural policy field of the EC was conducted in absence of budgetary constraints. The empirical findings in this work point toward a greater role of the context. The significant change in surrounding took effect on the policy making after the "trigger-event" of the budgetary crisis.

Pierson's original theory discards the possibility of such changes, however, as this case clearly shows they are possible. One could argue now that the introduction of milk quotas is a special case, as many factors had to play together to overcome the barrier to reform. For change to happen there are always a number of factors which need to occur. History is always a package deal, where economic, technological, political, and social developments shape the outcome. That a large number of factors co-constructs the outcome of an event doesn't mean that it won't occur again. Especially, when these factors amount to a crisis this outcome is all the more significant.

Therefore it necessary for theory to account for the possibility of change. "Critical junctures", which have been applied to EU policy development, could close some of the gaps. Their emergence is connected with collective changes in perception and a combination of technical, legal, political, and economic factors. This fits our case, as a combination of different factors enabled a situation where barriers against reform were overcome. However, critical junctures suggest there is a point in time, were policy makers decisions have significantly more impact than before and afterwards. Also, this concept of change points at change happening in a radical manner. To my knowledge, the milk quota has never been labeled a "critical juncture" for the CAP. This may be due to the perception in hindsight that researchers wouldn't label it as a "true" reform. Strict liberalization of markets would have had much more impact and that the quotas stand for the state intervention in economy and not liberalization. (Die Zeit, 1985) The milk quota and its history are certainly not a change as radical as the collapse of the Soviet Union or the new institutions which emerged in the European debt crisis. However the milk quota brought about significant change. For scientists and farmers at the time, the milk quota was significant change. (Petit, 1987, p. 137) Also, the Commission felt that the introduction of the reform was an "abrupt change of course." (Commission, 1987, p. 22) Additionally its long-term history and outcome suggest, that the milk quota had transformative effects for the system. Therefore this concept is lacking in the case of the quota. It constitutes a case were change is more gradual and incremental. This change should by no means be neglected, since it is still capable of transforming the system.

## 9. Conclusion

The above described mechanisms of layering, conversion, and drift could be used to describe incremental change of EU policy. For this case, layering seems to be most applicable, as the other two mechanisms do not require policy changes. Indeed, the milk quota does fit the description. The quota did not formally abolish guaranteed prices. It put a different layer of policy over the existing system. It may not be intuitive to describe the milk quota as a layer, since it mainly served as an instrument to limit guaranteed prices, therefore not adding but rather subtracting from the

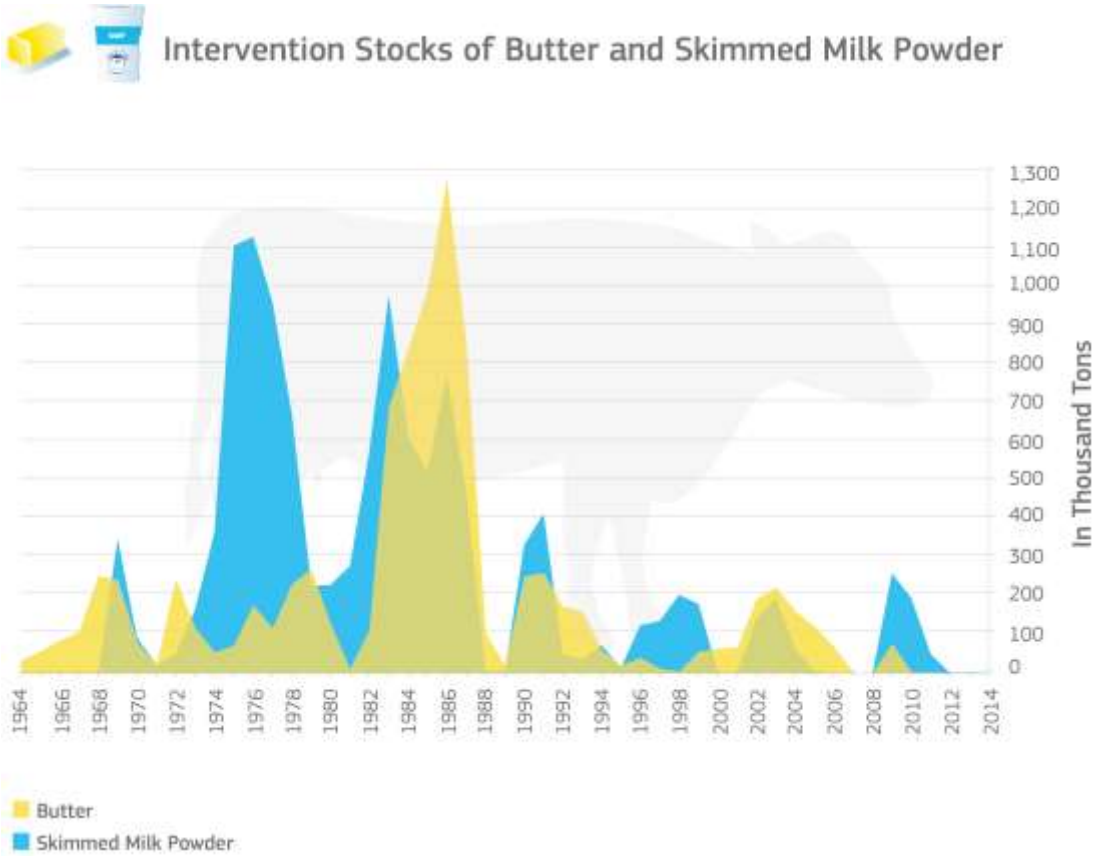
original policy. However, the institutional setting remained largely untouched and is altered through adding different legislature to it. Therefore the mechanism of layering is applicable to this case. Mechanisms such as drift and conversion do not apply in this case and their applicability can therefore not be accounted for. However, there may be cases in the EU system were they apply. Via a more complex framework which accounts for different forms of change, theory can capture there changes.

Incremental change in EU-policy can happen through the layering of policies. While the original system persists, new legislature is added to it, which has the potential to transform the whole system gradually, as it happened in the case of the milk quota. These changes are possible due to a combination of different factors from different fields and the combination of actions of multiple actors.

This work has clearly shown the need to capture the mechanisms behind policy change in the European Union. It has also shown, that this change happens through a variety of factors and that a wide frame is necessary to capture and understand change. Going back to the introduction the phenomenon of the European debt crisis shows us the need for concepts for both: radical and gradual change. There has been a moment were radical change was brought about, for instance the creation of the European Financial Stability Facility (EFSF) and the European Financial Stabilisation Mechanism (EFSM). However there have been also more incremental, gradual changes, such as the European Stability Mechanism (ESM), which replaced these institutions or the new supervisory role for the European Central Bank to monitor the financial stability of banks in the Eurozone states. Both concepts of change significantly shape the European Union and therefore need to be captured by theories of European integration. Mechanisms that capture incremental change, such as layering, can serve this function in historical institutionalism as a theory of European integration.

# 10. Annex

## 10.1 Annex 1: Intervention stocks of butter and skimmed milk powder




Source: European Commission (2015): *Intervention Stocks of Butter and Skimmed Milk Powder***.** Retrieved from: http://ec.europa.eu/agriculture/milk-quota-end/infographics /infographic01_en.jpg

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