Assessment and alternative proposals on European structural policies: Why is it wrong to oppose Common Agricultural Policy and research and innovation policy?

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Abstract

The British Prime Minister has recently put in the centre of the debate on European economic policy the question of the place of the CAP which would represent a too important share of the European budget while, at the same time, almost no support would be given to the research and innovation policy. It would be a policy of the past incapable to face the main issues of the future. Agriculture policy might be renationalized to devote most of the EU budget to policy more turned towards research and innovation. The debate is welcome but the British position is too simplistic.

Structural policies are not reduced to CAP and innovation policy. Regional policy is a matter of concern, but also competition policy which plays a dominant role, industrial policy which is almost inexistent at the European level and trade policy which has been at the origin of the European construction but is now inscribed in the WTO framework. A critical assessment of the policies followed in these fields at the European level since the 1980s will be made in a first part. Alternatives proposals will follow in a second part, showing how it is possible and necessary to conciliate CAP and innovation policy with other structural interventions. The proposed measures make up a coherent programme.

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1. Introduction

The British Prime Minister has recently put at the centre of the debate on European economic policy the question of the place of the Common Agricultural Policy (CAP) as representing too large a share of the European Union budget while, at the same time, almost no support is given to the research and innovation policy. This would be a policy of the past incapable to face the main issues of the future. Agricultural policy might be renationalized to devote most of the EU budget to policy more turned towards research and innovation. The debate is welcome but the British position is too simplistic.

The problem must be appreciated in a broader perspective to assess how structural policies can support European growth and development. Structural policies are not to be reduced to the CAP and innovation policy. Regional policy is a matter of concern but also competition policy which currently plays a dominant role, industrial policy which is almost inexistent at the European level and trade policy which has been at the origin of the European construction but is now inscribed into the WTO framework. A critical assessment of the policies followed in these fields at the European level since the 1980s will be made in a first part. Alternatives proposals will follow in a second part, showing how it is possible and necessary to conciliate CAP and innovation policy with other structural interventions.

2. An assessment of European structural policies: too weak and too market biased

2.1. From the Treaty of Rome to the Single Market

Structural policies had a somewhat ambiguous position during the first stages of the European construction. No provision had been made in the Treaty of Rome, except for the agricultural sector. The only policy mentioned was competition policy, as the result of a Franco-German compromise. Germany was very attached to the competition policy which was adopted by France as a counterpart for the implementation of the CAP. In practice, Community monitoring worked with relative pragmatism. From the 1960s to the 1970s, state interventions were multiplied because of the economic crisis. Apart from the CAP, numerous structural interventions were decided in declining sectors, in some high-technology sectors with uneven results; in R&D where interventions have remained modest; the importance of the European Fund for Regional Development (EFRED) set up in 1975 increased with the successive enlargements.

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2 This paper is based on contributions to the book edited by J. Huffschmidt ‘Economic policy for a Social Europe: a critique of neo-liberalism and proposals for alternatives’, Palgrave Macmillan, 2005.
In the mid-1980s the belief that European construction would work around both a harmonisation process and a space structuring process implemented through common policies, had largely disappeared. Each year the Community budget, though extremely small, was the occasion of fierce bargaining. The successive CAP reforms proved strenuous. In spite of occasional obvious progress, technological policies could only mobilize very modest amounts of money and had great difficulty promoting efficient cooperation patterns.

The 1986 Single Act came as a refoundation of the European economic integration project. The market was presented as the only alternative in order to overcome the deadlock of the European construction. The logic of competition was strengthened at all levels. All the advantages expected from the single Market resulted from scale economies and cost reductions due to increased competition. Innovation was also to be stimulated by the reinforcement of competition, thus contributing to amplify the virtuous circle of growth and productivity.

In practice, the results were far from those expected by the European Commission. A faster growth did not happen. The mere abolition of non-tariff barriers did not manage to create a Single Market. National markets continued to be characterized by the strong specificities that usually underpin private behaviour. To a certain extent, true barriers have subsisted and econometricians have rediscovered the ‘frontier effects’ (the border separating two countries exerts a decisive impact on trade patterns). They have remained strong, even if attenuated. By being too much oriented towards the issues of economies of scale and the stimulation of an intra-European competition, European integration failed to grasp the new stakes in international competition.

The Commission’s monitoring of State aids was reinforced so as to eliminate the interventions likely to alter the operation of the competition mechanism. A few aids only were allowed, to R&D, regional development (in certain cases) and, more generally, general-purpose aids aimed at improving the firms’ environment. The restrictions were introduced to national interventions were not compensated by a sufficient enlargement of the Community’s own interventions. Technological programmes were developed in the 1980s and 1990s but have remained too modest. The reform of the structural funds that are destined to the less developed regions allowed their doubling from 1987 to 1993, but they only account for 0.3% of GDP and suffer from the multiplicity of protagonists.

2. 2. The insufficiency of innovation and industrial policies

An inadequate research and innovation policy
The difficulty to turn scientific breakthroughs into industrial and commercial successes had already been pointed out in the White Book on employment and competitiveness (European Commission, 1993). The deterioration of exterior performances was noticeable in the 1980s and 1990s in the two key sectors of information and communication technologies and biotechnologies. The reasons for this are many but largely lie in the inadequacy of research policy, both at Community and national levels. Compared with US policies, national policies based on very diversified national innovation systems have lacked homogeneity and coordination. Budgets have been in general inadequate. In Europe, the average R&D effort accounts for approximately 1.9% of GDP against 2.5% in the United States and in Japan and no country, except for Sweden, exceeds the American level.

The RD Framework Programme (RDFP) has suffered from several handicaps:

- the inadequate commitment of big companies that have been reluctant to cooperate on major projects and have often limited their contribution to second-level projects,
- the complexity of the procedure which has represented an obstacle for medium-sized firms,
- the multiplicity of objectives which is little compatible with regulation uniqueness,
- the perversity of the necessity to reach unanimous decisions which has prevented the concentration on priority projects and lead to a multiplicity of minor interventions,
- the inadequate nature of the pre-competitiveness notion,
- the utilization by some countries of the RDFP as a substitute for decreasing national budgets,
- its own low budget: 15 billions euros for the 5th RDFP from 1998 to 2002.

The EUREKA programme is an intergovernmental cooperation mechanism based on firms’ initiatives, whose flexibility is often acknowledged. Yet it has lost its importance because of the disengagement of some States, the reduction of the size of funded projects and a decrease of funds available.

Several improvements have recently been made. Since the relinquishment of the rule on unanimous decisions in June 1999, there has been more selectivity within the RDFP. It is now possible to exceed the pre-competitiveness criterion and this should allow projects that are nearer to industrial application to be financed. At the 2000 Lisbon summit, member states asserted their commendable willingness to catch up in the knowledge based economy. But the allocated budget was extremely limited, the overall strategy remained essentially liberal with almost no concrete measures.
The budget for the 6th RDFP (2002-2006) is only slightly higher with regard to the issues at stake (17.5 billions euros). Community research will be focused on excellence networks and large integrated projects. Such an approach, which is sometimes justified when it is necessary to concentrate the means of action, is likely to marginalize innovative, but more specific, projects which will not be financed by the Community.

A lack of industrial policy at the European level

There is no real place for the notion of industrial policy at Community level and many member countries are not familiar with it. It was only recognized in 1994 as ‘industrial competitiveness policy’. Theoretically, it is limited to horizontal measures aimed at improving the firms’ environment, but in practice, they are rarely explained. It is subject to the almighty competition policy.

In the high technology fields, the RDFP framework has been the only instrument gradually implemented at Community level. Its shortcomings have already been dealt with. The lack of an overall policy in this field is illustrated by several sensitive cases where decisions have been taken erratically.

It first concerns specific programmes such as the Galileo GPS project which was reintroduced at the March 2002 Barcelona Summit. These projects could have decisive driving effects on European research groups and help to the set up of cooperation networks.

The absence of a European policy for high-speed telephone services (UMTS) and the mere recourse to national tenders have had particularly harmful consequences. Conversely, a well-designed European standardization has been a powerful instrument to strengthen European firms’ position, as illustrated by the GSM standard for mobile phones.

National regulatory agencies were set up in several service sectors (telecommunications, electricity) within the framework of liberalization policies. Their operating methods raise problems with regard to democratic principles and the respect of public service activities. European regulatory bodies and their links with national agencies remain to be determined.

The shortcomings are even greater in infrastructures programmes which often appear as the necessary complements to the liberalization policies implemented in public services. The traditional instruments of national industrial policies based on the large projects and public procurement logic have been thoroughly challenged by liberalization policies and technological changes. The accumulated experience and the results that were obtained are significant but they have not been transposed at European level.

The most striking example is that of public infrastructure investments, and more particularly trans-European transport networks. The 1993 Delors Programme never came to be
implemented since it had been opposed by the Finance Minister Council on account of the budget stabilization policies of the early 1990s. Only 14 projects of trans-European transports were decided in Essen in 1994. Out of these 14 projects, only three have now been completed and two have not even started. The deadlocks can partly be explained by the fact that those projects were the mere juxtaposition of national projects that did not take the cross-border links into account and thus leading to ill-coordinated efforts. In addition, infrastructure investments were slashed for budget reasons and road transport continued to be privileged. Yet, rail freight transport is little developed in Europe, contrary to the situation in America, and represents a major source of congestion and pollution.

Drawing the lessons from the past failures, new orientations were recently decided within the framework of a trans-European transport scheme, with the definition of a ‘community interest’ for the selection of projects and the awarding of a ‘European label’. The work should no longer be coordinated at intergovernmental level and each project would be piloted by a single appointed operator having the status of a European firm. Although progress has been made in the field of design in this particular area, it still shows many shortcomings if a wider goal is to be decided. The budget is too low, even for projects that only concern trans-European transport networks (23bn euros between 2003 and 2006). Many key areas in terms of long-term growth are not covered.

2. 3. The pre-eminence of the competition policy

Control of anticompetitive agreements and concentration supervision

The European control of anticompetitive agreements aims at sustaining a high level of competition which is supposed to be a strong factor in securing efficiency. Little consideration is given to the economic dimension whereas it ought to be acknowledged that in many sectors firms’ competitiveness is based on the narrow and sustainable links which may exist between the different actors. This prevailing approach is too doctrinal and it does not provide national control bodies with sufficient room for assessment.

Prior to the key merger control regulation of 1989, it was difficult for the Commission to intervene in mergers and acquisitions, although it tried in some cases to do this by defining a merger as the establishment of a kind of cartel. Since the early 1990s the definition of a ‘pertinent market’, on which the risk of a dominant position is assessed, has often been limited to the European, or sometimes national, level. This was a static approach, taking only into account the impact on effective competition without integrating the future evolution of markets. Recently the Commission has begun to take world market perspectives into account.
Concentration is more limited in Europe than in the United States and medium-sized firms are weaker. Cross-border mergers and acquisitions between European firms are few. The Aérospatiale-DeHaviland case, soon followed by the Boeing-Douglas McDonnell merger and more recently by the refusal of the Volvo-Scania and Schneider-Legrand agreement illustrates the problems at stake. However it must be underlined that the performance of merged firms is not always an improvement.

According to the Commission, its credibility is at stake and its rigorous attitude vis-à-vis European firms gave it the means to refuse the Honeywell-General Electric merger in September 2001. In practice, refusals are extremely rare (18 merger refusals over the last ten years out of 1900 notified mergers).

*The control of national aids is too rigid*

National State aids are banned so that unilateral practices should not lead to distorting effects and affect competition. In theory, only general purpose aids that do not help some particular firms or sectors are allowed. In practice, some dispensations have already been accepted for the aids meant at helping the regions in difficulties, small and medium-sized firms, as well as for those in favour of the environment or R&D. The existing control devices correspond to a unilateral strategy of national aid reduction based on assessment criteria that are overly macro-economic. They lack coherence and do not try to articulate national aid control and existing Community policies.

*The opening of public services to competition*

Public services correspond to the supply of goods and services that are essential to people’s daily lives and to each individual’s fundamental rights. They contribute to the economic, social and geographical cohesion of a nation. They can be provided either by administrations, public or private companies, under certain conditions. They have been at the heart of the policy of liberalisation and opening to competition since the 1990s.

Several factors are put forward in order to justify this evolution. Some activities, like telecommunications, that used to yield increasing returns to scale, have turned into activities whose yields are now decreasing under the effect of technological innovations, thus rendering the monopolistic situation obsolete. The segmentation of activities, like in rail transport or electricity, has allowed the division of public companies into several segments, and some of them have been subjected to competition or privatized. These ‘theoretical’ reasons serve, in many respects, as an image to hide the decline of the ‘public service’ concept under the pressure of the liberal trend in a context of economic and budget austerity.
The narrowing of the public service scope was accompanied by a change in the criteria that justify public intervention. Traditional ones (growing returns, externalities) tend to disappear in favour of the nature of the information. The difficulty to contractualize an activity on account of the hidden nature of information is a means to justify the maintaining of a public operator.

All this has made the dismantling of the public sector easier, some segments of activities have completely left the public sector while some others have been delegated. Whenever a public service is contracted out to a private operator, the State will subsidize the additional costs that are inherent in any public service on the basis of a list of activities that are excluded from the competitive sphere. Such an approach underestimates the difficulties linked to the dismantling of network companies into distinct profit-making centres. By going too far in the division of activities (infrastructures and operation, but also production, distribution and trade) the companies’ technical culture as well as the quality and safety of supply may be imperilled.

Avoiding the drifts of privatized systems and the risks of deteriorating public services has become a major stake for regulating authorities. The answers they are trying to bring today, notably through the promotion of competition and the preservation of a ‘universal service’, remain very incomplete.

In the European Union’s founding treaties, the basic principle of competition remains though ample room is made for ‘general interest economic services’ by allowing national governments to determine, with a relative autonomy, the scope of their public services. In practice, the Commission’s directives have interpreted the founding documents. Since the early 1990s, they have dealt with the issue of public services, taking each sector separately. These directives have essentially consisted of liberalizing whole economic sectors of activities and they have led to a gradual opening to competition as well as contributed to a contraction of the scope of the public service sector. On account of the great variety of national models and the necessity to harmonize competition, the public service issue has not been wholly examined.

However, three points ought to be noted because they allow more active interventions. The fact that the Commission’s directives mention the notion of ‘network’, characterized by increasing returns in some segments of activities, justifies the maintaining of monopolies in the corresponding sectors and allows public interventions, without clearly defining their nature. The ‘universal service’ obligation is also mentioned in sectoral directives, with the following definition ‘a cluster of minimum services of a given quality, accessible to everyone
at an affordable price’. Lastly, the ‘general interest economic services’ mission has been reasserted in recent documents. These documents have so far been little enforced.

2.4. European trade policy: weak and too liberal

*From the Treaty of Rome to the WTO*

From the start, an important role was given to the common trade policy in order both to suppress tariff barriers and to allow the Community to express a unique viewpoint at international negotiations. The main goal was to promote international free trade. But the progressive dismantling of the common tariff barrier meant the disappearance of an essential instrument of the trade policy. It also proved extremely difficult for the Community to control the non-tariff interventions that tended to proliferate in the late 1970s in a context of industrial restructuring.

In the early 1980s Europe was in a weak position against its two major partners’ protectionist policies and the proliferation of unilateral measures. The climax came with the adoption by the USA of the ‘Super 301’ within the 1988 Trade Act framework and its renewal ever since. The Community had a certain number of instruments at its disposal (anti-dumping and anti-subsidies procedures, safeguard clause and a ‘new instrument’) which, until recently, were not used or used with extreme reluctance. With the implementation of the single market, the opening of public procurement and the early stages of the liberalisation of services took place unilaterally, without any counterpart from our non-European partners. In the GATT negotiations, the European Community got trapped in a confrontation with the USA over their bilateral disagreements while the latter were carrying out their own bilateral negotiations over the opening of foreign markets.

The absence of willingness in the field of trade policy reflected some deeply rooted divergences among European nations. Unlike the USA and Japan, there was little solidarity between European firms. The presence of firms with foreign capital and the strategic alliances between European and non-European firms added to the existing divergences. The United Kingdom and northern European countries had long been used to free trade practices and were more penetrated by non-European capital. Ireland massively resorted to foreign investment as part of its catching-up strategy. Germany, taking advantage of its competitive industrial activities, was always in favour of free trade in spite of the gradual erosion of its positions worldwide. Differences in specialisation have also played a key role. France, with its specialisation in agriculture, aerospace and military industries was in direct competition with the USA.
In the early 1980s proposals aimed at strengthening the trade policy have been much debated upon. It seemed difficult to outbid America’s trade policy by elaborating a central document similar to the American Trade Act or, more simply, by reformulating the existing texts. The European Union did not have the same political influence as the USA and non-member countries would have been less sensitive to European retaliatory measures. The European Union did not have strong enough assets to take full advantage of a strategy of opened markets. Lastly, the divergences among European countries were important. Another reason for the weakness of Europe is the absence of connection between trade policy, coming under the Commission, and foreign policy which is by nature intergovernmental, with a High representative, but devoid of any real existence or means.

However, a new economic order was established with the WTO’s setting up. Theoretically, unilateral instruments could no longer be used. The ‘Super 301’ was renewed in the USA, but actually unenforceable. The remaining instruments (anti-dumping measures and protection clauses) could only be used under special conditions, at the risk of judicial proceedings. The USA though have never given up unilateral actions but were condemned within the Dispute Settlement Body’s framework and had to find compromises.

The failure of the September 2003 Cancun summit was a turning point with the emergence of a serious conflict between North and South. Southern countries thought they had been cheated since the Marrakech agreements. They had given in on the Intellectual Property Right Agreement which proved more costly for them than expected, in exchange for more liberal practices in the agricultural and industrial sectors. Yet the European Union, and mostly the USA, failed to honour their commitments. The USA largely increased their subsidies to their farmers and reached a compromise with Europe on the agricultural issue. The European Union did not carry out the gradual dismantling of the textile sector that had been planned and postponed it until 2005. In such a context, developing countries have been able to form coalitions, lacking in homogeneity, but likely to have a decisive influence in discussions, first of all within the G20, where many emerging countries are gathered, and then within the G90, which is a larger group. The European Union made a series of mistakes during negotiations by betting on the heterogeneity of the G20 coalition and overemphasizing the ‘Singapore issues’.

Developing countries have appeared as new protagonists in international negotiations but the USA do not seem embarrassed by this new configuration. They can reassert their commitment to multilateralism while continuing to be actively addicted to bilateralism. The Geneva deal in July 2004 did not change the global context a great deal. The deadlock in the trade talks had
been released. The main point has been the agreement of the EU and the USA to progressively eliminate export subsidies and other forms of export support in the agricultural sector, but without a precise agenda and plenty of exceptions.

Strategic trade policy and North-North relations

The liberalisation of trade was already well under way in the last stages of the Uruguay Round in 1994. However the significant weakness of average tariff protection rates should not conceal the tariff peaks which remain very significant in the USA and Japan for some specific goods while being limited in the European Union. The gains to be expected from an additional and total liberalisation for manufactured products are weak. However, they mostly concern developing countries.

The European Union’s trade policy towards other Northern countries, notably the USA, is essentially a matter of trade strategy policy. Standards, public procurement and intellectual property rights have long been used by developed countries so as to promote and protect their own industries. Thanks to their large, unified market and their powerful administration, the USA have a more favourable position than Europe. The impact of American military and space programmes in high-technology sectors and the role of normalisation to protect the US market are well-documented issues. By comparison, Europe was in a weak position, with its partitioned markets and competitive programmes.

The completion of the Single Market made the enlargement of market sizes possible, in compliance with the original goal, but without the necessary accompanying measures to benefit from this new advantage. The opening of public procurements was achieved unilaterally without any negotiated counterpart from the USA. There have been very few European programmes lying on public procurements and likely to stimulate demand in high technology sectors. As far as normalisation is concerned, there have been uneven results such as the failure in high definition television and the success in mobile phones.

The USA opened a new area of attack in 1980 with intellectual property rights (IPRs) in order to recover their international supremacy (Coriat, 2002). The 1980 Bayh-Dole Act instituted a system of licences for public research products and stated American preference for them. Then the USA gradually imposed the recognition of American companies’ IPRs through the negotiation of successive bilateral agreements. After IPRs had become part of the Uruguay Round Agenda, the 1994 Marrakech Agreement on IPRs compelled the signatories to abide by the new American standards. This agreement generalised and extended patent rights. A switch was operated from a system in which there were major differences between national situations on account of important discrepancies in development levels to a very standardized
one, largely serving the United States’ own interests. Since the 1980s, the USA have built up a decisive advantage as regards patents taken out, which allows them to increase the value of and protect their leadership. Imitation catching-up strategies have become riskier and more costly on account of the increased penalties imposed on imitators.

The EU has experienced a cumulative backwardness in the field of IPRs, with less developed patenting practices, the absence of a unified patent at European level and a higher costs for taking out patents. European patent law was first introduced in 1977 but the name has somehow been usurped. Indeed, though the patent is examined by all countries when it is taken out, the name, when issued, becomes national and peculiar to each country, and duties are paid to each National Office. The true European patent, although announced since 1973, still does not exist. The weak and blurred legal outlines of emerging technologies have contributed to hamper the RD efficiency. They have also prevented the EU from acting as a significant counterbalance to the USA in international negotiations.

**Trade policy towards Southern countries**

Developing countries fear the rules imposed on them within the WTO framework might be ill-adjusted to their development level and appear too constraining. They reckon Asian countries would never have been able to set off their development process if the WTO’s current rules had been forced on them. They plead for more flexibility in the enforcement of those rules so as to take each country’s specificity into consideration. On this aspect the EU, as well as the USA, have appeared as too favourable to the enforcement of across-the-board rules and turnkey institutions.

The current agreement on IPRs seems costly for imitating developing countries, even if the 40 Less Advanced Countries will not be concerned by this agreement until 2016. The case of drugs is an illustration of the problem at stake while representing, to a certain extent, an exception (Jennar, 2003). The 2001 Doha Declaration admitted the impact of patent regulations on the price of drugs and the necessity to enforce the agreement on IPRs so that everyone could access to drugs. As regards ‘public health crises’, emerging countries with pharmaceutical industries were thus allowed to produce generic drugs without the patent holder’s authorization and the other developing countries could, for their part, resort to the import of those generic drugs. All the implementation details of the Doha Declaration were the occasion of hard negotiations and the 2003 Geneva Agreement made the conditions under which developing countries can resort to such imports of generic drugs more drastic. In those negotiations, the EU aligned itself too much with the US position.
The EU and Asian countries reintroduced the ‘Singapore issues’ in the Cancun negotiation, which constituted a deadlock vis-à-vis developing countries. The ‘Singapore issues’, in their ‘international investment’ section, essentially took up the terms of the Multilateral Investment Agreement (MIA) promoted by the OECD and abandoned in 1998. Developing countries consider that regarding their belated development, they are entitled to give preference to their own economies, favour their national champions, protect their public markets and compel foreign investors to accept joint ventures and facilitate the dissemination of new technologies. Similarly, they fear that ‘easier trade’, i.e. the reduction and harmonisation of the administrative procedures linked to international trade, might mean very high application and elaboration costs for them. Even though the EU ultimately backed up on two points (competition and international investment), it remained too rigid throughout the negotiation and favourable to the enforcement of the same rules for everyone.

Developing countries think they are marginalized within the WTO even though the balance of power started to take a new turn in Cancun. The penalty system within the Dispute Settlement Body (DSB) framework is meant to solve conflicts between developed countries but is ill-adjusted to developing ones. Trade sanction threats do not have the same weight when they come from developing countries or emerging ones. In case of conviction, there is no provision for prejudice compensation, but only the possibility to increase tariffs proportionately to incurred losses, which leaves little margins for developing countries. Conversely, this system is a means to protect oneself against a country that would be condemned but unable to pay. The condemned country must also lower its tariffs on the corresponding goods but here again this sanction may be more difficult to impose when a small country is opposed to a big one. This asymmetry in sanction mechanisms is problematic.

Social standards are another major stake in the relations with developing countries (J.P. Cling et al., 2003). The debate on this issue has calmed down since the failure of the 1999 Seattle Conference where the EU and the USA proposed to analyze the links that could be made between social standards and trade policy. Their proposal was rejected by developing countries because they likened it to disguised protectionist instruments. According to several studies, there is a link between the respect of social standards and development but the causality relation plays both ways and these studies often tend to be somewhat reductive. Although this question is no longer on the discussion agenda, the non-respect of basic labour standards by many countries remains a serious problem (principle of free association and effective recognition of the right to collective bargaining, elimination of any kind of forced labour, abolition of child labour and suppression of professional discrimination).
The multilateralism/bilateralism/regionalism debate has strong implications for developing countries. On the whole bilateralism is unfavourable to small countries which have to make larger concessions. That is why the EU has decided to apply a moratorium on free trade bilateral agreements since 1999, unlike the USA where they have proliferated. Multilateral liberalisation is not favourable to developing countries because they lose the preferential treatments they could take advantage of.

The EU has widely developed regional agreements and is in favour of a regional integration process. The drawback with the latest agreements is that they call into question the asymmetries that developing countries could take advantage of and benefit processes in which parallel liberalisation takes place on both sides (reduction of tariffs in exchange of an easier access to Northern markets). But this so-called symmetry is actually detrimental to the Southern countries. Mediterranean countries are opening their markets to European products that will increasingly penetrate them while agriculture is not included in those agreements. Moreover the dismantling in 2005 of the Multifibre Agreement which was giving an advantage to small producers thanks to their quotas is playing largely in favour of China and other Asian countries, to the detriment of Mediterranean countries.

The negotiations within the General Agreement on Trade in Services (GATS) framework

The liberalisation of services trade represents the new stake in the future negotiations with the GATS, which was signed in 1994. The stake is essential as many services are socially produced in accordance with specific national standards that are the very foundations of our societies. All services are concerned, including education and health, with the exception of regalian ones. The negotiation process is progressive but all sectors are due to be concerned by the liberalisation trend through successive bargaining waves.

This general framework is particularly worrying for public services and the European social model (Jennar, 2003). In terms of the global liberalisation of services prospects, no reference whatsoever is made to the specificity of public services. The participating nations jointly determine, on the basis of mutual concessions, the sectors to be liberalised, but all exceptions and restrictions must be re-examined every five years. The WTO then decides whether the conditions that justified those restrictions are still acceptable. In case of dispute and if a complaint is lodged by a participant, the WTO’s Dispute Settlement Body -a court whose validity may be questioned with regard to democratic principles- will be the only one to judge on final appeal. The WTO is ruled by a British ‘common law’ principle according to which the law is empirically established through the SCD’s judgments.
The European Commission has appeared as a zealot of the liberalisation process. The liberalisation proposals of March 2003 on highly sensitive subjects had not been submitted to any democratic consulting. Besides the horizontal commitments which, among others, paved the way for the short stay of non-Europeans in highly skilled sectors, the proposals for sectoral liberalisation are considerable in postal and environmental services, transport and telecommunications. If the right to impose universal service goals in postal or telecommunication services is maintained, the procedure allows the speeding up of the liberalisation process and to overcome Member States’ reluctances. Liberalisation within the GATS becomes non-reversible and the remaining obstacles are likely to be removed at a later stage in negotiations. Though education, health or cultural activities are not concerned for the moment, there is no guarantee for the future.

2.5. Common Agricultural Policy: efficient and necessary, but needing reforms
The Common Agricultural Policy (CAP) is often criticized by pro-free trade liberals and supporters of developing countries’ farmers, as well as for its agricultural productivism and excessive budgetary cost. However, though no one today questions the need for deep reforms, the situation is quite complex and not so clear-cut. Agricultural policies laying on solid foundations have largely shown their efficiency, even if pernicious effects have appeared and corrections to those effects have started. In this instance, like in many others, the market is usually put forward as the only way out of the current difficulties, though it does not provide a satisfying answer and hardly brings any solution to developing countries’ agricultural sector.

The foundations of agricultural policies
One of the main justifications of agricultural policies rests with the unsatisfactory management of agricultural markets and the ensuing major instability of agricultural prices. Their volatility is well-known, with its extremely negative effects, not so much for rich countries’ consumers as for producers, notably in developing countries. The impact of fluctuating prices is considerable as farmers, particularly in poor countries, are risk averse, especially when this risk is linked to price fluctuations. When faced with such risks, they reduce their production. A price hike often –but not automatically- leads to a production increase.

The macroeconomic consequences of such phenomena are very noticeable (Boussard, 2003). The evolution, over centuries, of cereal yields in France and the USA shows quite clearly the radical change since the late 1930s. Yield growth is much faster after that period than before, which largely helped to compensate for the shortages caused by the Second World War. The
reason for this is simple: in the USA, as of 1935, prices were guaranteed by Roosevelt as well as in France by the Wheat Office in 1936. More stable prices then allowed farmers to increase their income, invest and improve their productivity quite substantially.

Two theories account for the volatility of agricultural prices. The first one relates it to exogenous factors, essentially climatic hazards, but even though they undeniably play a role, they do not account for everything. The second theory refers to the poor efficiency of agricultural markets. Demand remains rigid for food products, especially for basic products. In case of shortage, consumers are ready to pay very high prices to meet their needs. In case of surpluses, they are never willing to increase their consumption, even when prices are slashed. It is then difficult for the market to find its equilibrium. Prices are unstable and no longer reflect production costs. These questions have fuelled an abundant literature on the erratic—or not—nature of agricultural products’ prices (Burton, 1993; Boussard, 1996). They lead to idea that in order to reduce fluctuations the price setting mechanism has to be changed. This was confirmed by history, as of 1935, with the American policy of administered agricultural prices, which literally boosted output. All in all, wheat prices in real terms have fall by three quarters in the USA since the 1930s. American consumers and taxpayers have largely benefited from this situation, regardless of the huge amounts of money spent by the treasury to subsidise the US agricultural policy.

Most countries in the world then imitated the US model after 1935 and decoupled their agricultures and the market. The CAP was inspired by the American agricultural policy, but also took specific aspects into consideration, notably by seeking to ensure the European Union’s food supply independence. These policies, that are still enforced in spite of the rise of liberalism, have been largely successful, notwithstanding today’s numerous difficulties.

Problems raised by the CAP

*Prices that are guaranteed at near production cost level lead to agricultural surpluses and resource waste.* This could be noticed in Europe as well as in the USA for cereals, and in the Ivory Coast for cocoa. A likely solution would be the implementation of administered prices, jointly with a regulated supply including individual production quotas, so that global controlled output should remain slightly inferior to domestic consumption. Marginal adjustments would then be imposed by the market. Past experiences testify to the feasibility of such a scheme, which essentially applies to basic products.

Faced with rising surpluses and increasing budgetary costs the CAP has been altered since the early 1980s, in 1984 first, with the introduction of quotas on dairy produce and then with the 1992 reform which deeply changed the system for cereals, oilseeds and beef. Financial
support was granted according to the number of cultivated hectares or cattle heads in exchange for a significant decrease in guaranteed prices and the obligation to leave fallow. 

Agriculture does not only produce basic products but also semi-luxury products (flowers, spring vegetables, ...) for which there is a more complex regulation. The notion of product quality plays an increasing role. There are no major agricultural policy problems for these products because they are generally little subsidised and the market is more efficient when demand is elastic.

More basically, agriculture also produces externalities (landscapes, pollution due to intensive methods of production,...). The problem is then entirely different because the market cannot play any role. 

Landscapes and, more generally speaking, the public goods that are produced by a multifunctional agriculture are hard to assess (Allaire, 2003). As regards pollution, a reliable system of administered prices, for inputs as well as outputs, could lead farmers to adopt non-polluting techniques.

Provided technical solutions can be found to solve the different problems, a major difficulty crops up since ‘our society does not know what it wants’. The market is of no help in this sector (no one will pay for a pretty landscape, for instance). Democratic procedures are hard to implement. However, collective decisions play a role (to clean up a river or preserve a landscape) even if they are costly.

These questions have been partially tackled in the CAP reforms under way since 1999. Under Germany’s pressure, the Agenda 2000 stressed the importance of reaching ‘fair agricultural practices’. In France, the agricultural framework law has integrated the multifunctional aspect of agriculture, which is not only expected to produce as much as possible, but also to take care of the environment and produce rural amenities. The state-funded ‘regional development contracts’ to help those farmers committed to environmentally friendly practices or to the production of amenities were meant to further the process but in reality little was achieved.

The recently adopted CAP reform of June 2003 follows the same logic in so far as it is aimed at increased financing of both rural development and environmental protection.

The recognition of rural development as an objective of policy implies a shift from an exclusively sectoral interest to a mix of sectoral and territorial interests which corresponds to the recognition that the rural problems cannot be solved only with agricultural policy, but require enhancing the diversification of the rural productive structure. However, the European policy for rural development was since its origin conceived as an accompanying policy to the CAP rather than as a policy with its own autonomy and objectives. Although at present these
two sides of policy exist side by side in the CAP, their relative importance is still very unequal.

*Agriculture is at the origin of major income inequalities* and the CAP, by linking financial support to output and then to cultivated hectares, has undoubtedly rewarded big farms. This concern was partially addressed in the 1999 CAP reform and the possibility was given to member countries to adjust their subsidies according to farm size. Portugal, the UK and France made a very moderate usage of this opportunity. Quite significantly however, one of the first measures taken by Mr Raffarin’s government in France in May 2002 was to interrupt the adjustability of European subsidies.

*Lastly, the CAP’s protectionist nature is said to be detrimental to developing countries.* For instance, European sugar beet producers would hinder the full development of sugar cane in Brazil and elsewhere. The Euro-Mediterranean agreements liberalised industrial products only, for which European countries have a decisive advantage, but agricultural goods were not included, thus limiting Mediterranean countries’ comparative advantages for many products in this sector. The CAP is not the only one to be concerned since American subsidies to cotton producers caused a fall in cotton prices, thus leading to the ruin of small individual African producers.

But this argument ought to be taken with care. The developing countries’ comparative advantages must be increased and exploited through structural policies that are well adapted to those countries. Those advantages are not ‘natural’ and do not lie only on favourable factors such as climate or low labour costs. They must be transformed gradually. The full integration of developing countries’ agriculture to international trade requires specific instruments and cannot lie on free trade only. The Cairns-led liberal crusade, which brings together not only emerging countries with high agricultural potentialities, such as Brazil or Argentina, but also developed countries like Australia or Canada, is very hypocritical. Indeed, if its argument is apparently favourable to developing countries’ agriculture, it also advocates a liberalisation which, if implemented, would actually reinforce the extensive agriculture of richly endowed emerging countries like Brazil or Argentina, but not really the small individual farmers in Brazil’s Nord Este or Africa who would be wiped off. Let us also recall that if the European Union’s agribusiness has posted important trade surpluses against the USA since 1999, it has also shown a deficit against the rest of the world, particularly important and rising with Brazil, Argentina, Mexico and other Latin-American countries (Pouch, 2003 et 2004). The poorest countries’ agriculture stands no chance if the market mechanisms are given more freedom.
Conversely, two orientations ought to be considered if one admits that agricultural and food products are different from other goods. On the one hand, in the poorest countries it would then be necessary to sustain an agriculture capable of bringing enough income so as to maintain activities in rural areas, while integrating such a policy to a more global development strategy. On the other hand, in developed countries it would be indispensable to limit the production and exports of goods, using quotas for instance, which underlines the necessity to reform the CAP.

Reform proposals

Such real problems have led to several reform proposals and the CAP has actually been altered since the 1980s. Since the late 1990s, pressure for a more radical reform has been reinforced by increasing budgetary constraints, the issues to the Eastern enlargement and the WTO’s international negotiations. The general trend has been to reintroduce free trade, while correcting its drawbacks. A return to free trade would have devastating effects because the basic instability of agricultural prices would certainly not be a satisfactory solution for developing countries. There have been hopes that futures markets would bring some relief (Carfantan, 2002), but they do not match the depth of the problem. Futures markets allow individual farmers to protect themselves but certainly do not wipe off price fluctuations or their drawbacks at macroeconomic level.

In practice, four series of proposals may be distinguished.

The CAP’s renationalisation, i.e. its suppression, is particularly attractive for the UK, but not only there. It is also to be found in Sapir’s report (2003). In this perspective it is proposed to free imports of agricultural products in conjunction with a system of guaranteed prices for farmers. The difference between guaranteed and market-determined prices would be compensated by subsidies that would be renationalised and autonomously managed by each state. Such a position is apparently clever as it is both open to developing countries’ imports and coherent with free trade principles.

Yet, it poses several problems. Consumers would bear the effects of the strong instability of agricultural prices. The setting of guaranteed prices is not easy, and neither is that of production levels. If they are not limited, the risk of overproduction is serious. Compensatory payments do not fit in with the WTO’s framework. Lastly, agricultural product exporting countries that would mostly benefit from such reform are not really developing countries.

The Commission is trying to reform the CAP so as to reduce its cost in view of the enlargement and renew with budgetary margins within a community budget limited to 1.27% of GDP and to make it acceptable in international negotiations. The Commission’s position is
to change the nature of the existing subsidies by putting an end to surface or cattle-head linked subsidies and switching to a new type of subsidies related to agricultural practices and the production of amenities. Subsidies would thus no longer be linked to production and production itself, as well as prices, would become market-oriented. Such a position, not unlike Germany’s (whose aim is also to reduce its net budgetary contribution), will encourage ‘fair practices’. However, its reference to the market which remains essential poses a problem since it has historically been unable to ensure a proper regulation of the agricultural sector.

The compromise reached by the Agriculture ministers in June 2003 is a strange mixture, lacking coherence and essentially aimed at making a better impression at the WTO meetings. The decoupling will start in 2005 or 2007 according to the countries. It will only be partial for certain products (beef, mutton and cereals), while others will not be concerned at all (olive oil, sugar). Intervention prices for cereals will not be lowered.

*With a view to the eastern enlargement*, agricultural problems play a key role. A cost (the reduction of agricultural employment without a satisfactory compensation for other sectors, rising normalisation-related costs and prices, increased competition, environmental risks) and benefit (modernisation and productivity gains, aids) assessment suggests that costs might prevail over benefits. Community subsidies have been limited to 25% of today’s amounts per hectare or cattle head, gradually increasing so as to reach 100% in 2013. This ceiling which is frowned upon by applicant countries is justified, in the Commission’s opinion, by the constraints imposed by the current budget (only a community budget increase could ease the situation), the fear of an uncontrolled rise of agricultural surpluses if subsidies were more important (the setting up of quotas could be a solution) and lastly the problems linked to the redistribution of internal revenues for applicant countries if subsidies were too high compared with average national incomes.

*The international negotiations within the WTO with the USA and developing countries* raise a last series of questions. The debate made a bad start within the WTO with Anglo-Saxon countries seeking to preserve and promote their interests under the cover of attractive proposals (the acceptance of subsidies encouraging ‘fair practices’, the gradual reduction of subsidies with distorting effects, the defence of developing countries by the Cairns group member countries which aims at giving advantage to highly productive agricultural countries rather than to the poorest developing ones).

Following the failure of the 1996 Farm Act which had introduced the decoupling of subsidies and output and led to a significant decrease of American agricultural incomes, the USA
within the 2002 Farm Bill framework renewed with a policy of guaranteed prices, even if they put to the fore again, quite hypocritically, their willingness to reduce their agricultural subsidies and return, in the long run, to free trade.

The failure of the Cancun summit has shown the new ability of the main emerging countries to face efficiently the Euro-American couple by federating a rather heterogeneous coalition of Southern countries (the G22 which then became the G20). The American refusal to suppress the subsidies to cotton producers and the rigidities of the European positions on other subjects have also contributed to the blockage. However the implication of the central demand of the G20, the suppress of all the subsidies to the Northern farmers, must be questioned. The total liberalisation of agricultural products trade would be far from favourable to most Southern and Northern farmers. It would first benefit the emerging countries’ big farmers, like Brazil and some members of the Cairns group. The less advanced developing and Mediterranean countries’ farmers, whose export capacities are limited, would be eliminated and the same would apply to those in North-East Brazil. This clearly appears in several detailed studies that were carried out per country and per product (CEPII, 2003). In order to modernize their agricultures which still guarantee a minimum income to a large part of their populations, these countries need structural policies and specific subsidies that are far removed from the sole principles of liberalisation.

The Geneva deal in July 2004 did not change the global context a great deal. The main point has been the agreement of the EU and the USA to progressively eliminate export subsidies and other forms of export support in the agricultural sector, but with plenty exceptions and without a precise agenda.

2.6. The limited efficiency of the regional policies and their planned reduction

In the EU 15 regional disparities are substantial, roughly the double of what is observed in the USA. Whereas a catching up process has been observed regarding the income per capita at the national level since the beginning of the 1980s, the regional configuration is more diversified. However since the 1990s the increase of the regional disparities is more pronounced. Regional disparities of rate of unemployment are also important. Lastly the innovation activities are more geographically concentrated than the production activities at any regional level. Regional policies in the EU are implemented at three different levels, local, national and European. In a restrictive sense, they only concern public interventions with a regional dimension. But the regional impact of national (fiscal policy, social transfers, education,
public services) and European policies (research, agricultural policy, competition policy) may be greater and cannot be ignored.

Since the accession of the Southern European countries, the European regional policy has reached a rather important level, as the Structural funds and the Cohesion funds represented yearly 0.45% of the EU GDP between 1994 and 1999, with financial contributions far higher for the Southern countries (4% of GDP in Portugal, 3.7% in Greece, 2.8% in Ireland and 1.7% in Spain). But, for the period 2000-2006, a decrease was planned, with 260 billions of euros for the whole structural measures (0.4% of EU GDP each year), 195 billions for the Structural funds, 18 billions for the Cohesion funds and the rest for the applicant countries. Three objectives have been retained for the Structural funds:

1. promote the development and structural adjustment of regions whose development is lagging behind (with a GDP per capita less than 75% of the EU average) and which would receive an amount of 70% of the total Structural funds;
2. support the economic and social conversion of areas facing structural difficulties;
3. support the adaptation and modernization of policies and systems of education and employment (long term and youth unemployment, persons excluded from the labor market).

The efficiency of Structural funds in reducing regional disparities is questionable. According to some authors, they seem not to have a great impact (Fagerberg and Verspagen, 2000) or, though econometrically significant, have had only a limited impact. According other studies, they could explain half of the convergence observed between 1989 and 1993. Following the results of national modeling, they could have fairly increased the growth of the Southern countries during the years 1994-1999 (Cour and Nayman, 1999). Structural funds invested in infrastructures contributed a third of the reduction of productivity gaps between the Spanish regions during the 1980s. Their impact on private investment would also have been positive for the Cohesion countries. But, in the case of Portugal, this effect would have been more important when the investments were realized in the richest regions. Public infrastructures have strengthened convergence between countries by accelerating the growth of the most advanced regions of the poorest countries, without reducing internal intra-regional inequalities (Martin, 1997). The efficiency of Structural funds would be marked more especially as the concerned region is rich.

On a more practical plan, the elaboration and implementation of projects financed by Structural funds suppose complex interactions between the regional, national and European institutions. In many countries the projects management appears too centralized. Due the
complexity of the European documents, the control requirements at the national level and the co-financing recourse, the consumption of the Structural funds is often very slow. The Eastern enlargement of the EU brings new challenges which have been clearly diagnosed (Begg, 2002). With the entrance of the candidate countries, the average EU GDP per capita will fall dramatically and take many regions currently receiving Structural funds (with the Objective 1) over the 75% eligibility threshold. This will pose a dilemma as a region in Southern Spain or Eastern Germany that will move above the threshold will have its support reduced, without any change in its absolute GDP per capita. According to the Cohesion report (European Commission, 2002), the number of EU-15 regions below the threshold will drop from 46 to only 19.

A distinction can be made between countries with a weak fiscal capacity and the richest ones which believe that they pay too high a net contribution to the EU and regard the Structural funds as a one of the channels through which they can recoup some of their net contribution. The poorest countries, measured with an aggregated indicator, regroup Greece, Portugal and the new entrants. Some countries are not relatively poor, but contain regions which are below the threshold, sometimes significantly, like Spain, Italy and Germany. Lastly, in the other cases, neither the country, nor the region is below the threshold, but there are structural and specific problems which allow Structural funds (mainly through Objective 2). As there is a Treaty commitment that obliges the EU to act to lessen regional disparities, the political challenge in the perspective of enlargement would be to rise the threshold, for instance at the level of the Cohesion funds (90% of EU GDP per capita). But this would raise difficult budgetary constraints with an EU budget limited to 1.27% or even 1% of the EU GDP.

3. European structural policies: proposals for alternatives

European structural policies essentially focus on four areas: competition and trade policies, which play key roles to shape the institutional framework with a small cost for the European budget, regional policy and the CAP, which absorb the main parts of this budget. The scope of research policy, at European level, remains very limited. Industrial policy is almost ignored. In practice, most structural policies are implemented at national or regional level. National traditions vary greatly and each government has its own specific methods of intervention. European structural policies need to undergo a complete revamp with the aim of promoting sustainable growth and reducing unequal development.

3. 1. A more comprehensive innovation and industrial policy
The idea of an industrial policy is largely unknown territory. Competition policy is seen as all-powerful and research policy still in its embryonic stages. However, even Germany is starting to become aware that its industrial foundations are not invulnerable. In several countries, de-industrialisation and the take-overs of some national emblematic firms by foreign groups are worrying developments. The very restrictive notion of ‘industrial competitiveness policy’, as acknowledged in 1993 and 1994 by the European Commission, is still prevailing. The European economy is also handicapped by its backwardness in high technology. Its relative failure to turn its research efforts into solid industrial and commercial advantage is a major handicap. A more comprehensive conception of a European innovation and industrial policy would include four complementary approaches.

*A dynamic research and innovation policy*

a. The rationalisation of Community procedures aimed at encouraging research

The Community-funded measures aimed at encouraging innovation in small and medium-sized firms ought to be delegated to regional intermediaries in order to ensure greater efficiency. These regional intermediaries would be closer to the firms and better informed on their potentialities.

The RDFP procedures have become too complex, and specific rules ought to be implemented according to the nature of the activities that are financed:

- in the case of long-term upstream research, more freedom should be offered in the matter of proposals;
- as far as industrial research is concerned, the industries concerned should be involved in setting priorities, with a real commitment from bigger firms;
- the benefits from the EUREKA programme ought to be mobilized for rapidly executed projects and also in order to bring more specific help to small and medium-sized firms.

National measures aimed at promoting innovation ought to be rationalised; this would involve a certain integration of Community activities and taking measures to avoid duplication, as well as the sometimes stale intra-European competition. Support of development ought to be developed with refundable aid that would be repaid in the case of successful projects.

b. The implementation of new means

It is essential that various new means be implemented, both regarding the budget policy and the instruments that are mobilized.

At budgetary level, increasing the size of the European budget appears essential, and the supplementary effort proposed would represent around 0.4% of the EU’s GDP. The financial resources of the RDFP could thus be significantly increased within such a new framework.
Cooperative scientific programmes, backed by more permanent budgets and autonomous structures, could be initiated in large areas.

Technological European agencies aimed at promoting and coordinating activities in the fields of information and biotechnologies could be directly set up at European level.

Public European research bodies could be established to perform similar functions, which were already suggested among Sapir’s report proposals (2003).

*Progressive elaboration of a European industrial policy*

a. The rehabilitation of large public programmes at European level

The experience that has been built up at national level, thanks to traditional instruments based on large projects and public procurement, ought to be partly transposed to European level in several directions. Technology-intensive programmes in the energy, telecommunications and aerospace sectors have powerful impacts on the firms and laboratories that are involved with them. The development of such programmes at the European level, together with an increase of the corresponding budget, would reduce duplications and permit a better development of synergies. It would also encourage the establishment of research/industry and private/public cooperation networks giving rise to externalities. The impacts and spillover effects from these programmes would thus be expanded.

Infrastructure programmes, representing higher budgets, have major structuring effects on participating firms and also play a key role in the growth process through the externalities they generate. Lastly, if well designed and directed, they can contribute to environmental improvements and to the reduction of social inequalities. In many cases they appear to be the essential complement to the liberalisation policies that are implemented in network services. Competition is not the only answer and a joint effort at infrastructure programming is necessary.

Europe could decide to set up masterplans in the fields of rail transports, utilities, telecommunications and postal services. The financing of such programmes would once more necessitate a large budget increase, either at European level or resulting from new instruments that would be devised by the European Investment Bank (EIB). It would also be possible to envisage contributions from private financial institutions in some cases.

The actual carrying-out of projects should no longer be reserved for intergovernmental coordination, but in many instances would entrusted to a single body, at European level, in charge of an individual project, in order to avoid the numerous deadlocks that have been observed in the past.
Technological and large infrastructure programmes would amount to a global budget of approximately 0.4% of the EU’s annual GDP.

b. The implementation of regulatory instruments

The liberalisation of network services must be accompanied by a regulation policy in order to control the distorting effects apparent in the relations between private and public companies. Once again competition cannot be the only answer. The national regulation agencies that have been set up in various sectors (telecommunications, electricity) ought to be strengthened by giving more room to consumers and making clearer the constraints on public service activities. Regulation should also not be limited to price levels, but should include matters such as guarantees of universal access, level and composition of investment.

In order to control competition in those sectors at European level, the setting up of European regulatory bodies seems to be another necessity – it would, of course, be necessary to clearly define links between these bodies and the national agencies. Beyond this, European regulation agencies in the sanitary, food and financial sectors are likely to be set up.

c. The promotion of cooperation and the renewal of sectoral interventions

Policies offering incentives to inter-firm cooperation, at least concerning upstream production activities, and particularly in the high-tech sector, ought to be implemented, under the form of financial aids, which would mean a relaxation of the rules on competition.

Similarly, sector-oriented policies, aimed at promoting specific infrastructures, helping innovation and making the establishment of inter-firm links easier (but without providing individual firms with specific support), could be developed jointly with firms in the sectors involved. The textile sector is one area where such policies could be implemented following the Euro-Med agreement and the end of the Multifibre agreements. Renewable energies and technologies aiding sustainable development could be other important sectors to support. An initiative to promote clean technologies and products would be a way of encouraging sustainable development, offering the firms committed to such goals a considerable advantage for the future. To this end, a whole array of instruments ought to be mobilised (financial aids to innovation, standardisation).

d. A policy of standards and patent

A well-designed policy of standards at the European level might represent a powerful instrument for strengthening the position of European companies, as illustrated by the case of the GSM standard for mobile phones. Such a policy would rely on standard of European dimension with minimum requirement and homogeneity. The reinforcement of all-European standardisation bodies ought to be encouraged.
The setting up of an European patent is another crucial stake in order to protect intellectual property in key sectors like biotechnologies or information technologies. In Europe, the cost of patents is much higher than in the USA, and this constitutes a major handicap. A European patent would limit the complexity of the patenting procedure as well as reducing translation and examination costs.

*A more pragmatic use of European competition policy*

a. The control of anticompetitive agreements with more emphasis on the economic dimension

Competition usually contributes to efficiency and should be maintained and monitored. But preserving a strong competition should not be the only argument to be considered by the European mechanism aimed at controlling anti-competitive agreements. The competitiveness of a business is often based on the close and sustainable links that are established between different protagonists, and more attention should be paid to this dimension. However, strategic alliances should be examined cautiously in order to avoid pure marketing alliances aimed at dominating the market without improving technological efficiency. A less doctrinal approach ought to prevail, with the offer of standard contracts for cooperation agreements and permission for alliances in some cases. Depending on the individual circumstances, more scope for assessment might be left to national controlling bodies, which have a better knowledge of individual cases.

b. A more flexible interpretation of the rules on concentration

The changes suggested by the Commission in this matter are limited to an improvement of the existing appeal procedures against decisions, in order to speed them up. This is welcome, but seems insufficient. On two particular aspects, evolution over time suggests that some positive developments can be observed. A more dynamic approach, not restricted solely to the effects of current competition, tends to also integrate the future evolution of markets. The definition of the ‘pertinent market’, on which the risk of a dominant position is considered, is enlarged to encompass the whole world and not restricted only to the European or even to the national dimension, as was occasionally the case in the 1990s. These evolutions must be reinforced.

A last point has been raised by the latest attempt by France and Germany to jointly create European business champions. The cases in debate (Sanofi-Aventis, Alstom-Siemens and the possible creation of a naval EADS) correspond to very different economic contexts and there is no simple answer. Strong opposition appeared from the European Commission, which has underlined the necessity of respecting the European rules on free movement of capital and on competition. The past experiences of national or European champions have been very unequal. They can work pretty well in some circumstances, as in the case of Renault or Air France. But
this cannot be considered a general law. It depends on the environment and on the national traditions. As a general statement and according to the circumstances, European firms could be authorised to reinforce their positions in relation to their non-European competitors without being penalised. The development of ‘European champions’ in some major sectors of activity could be considered a reasonable objective.

c. Improved links between national aids and Community interventions

The current control mechanisms of national aids ought to be relaxed and made more coherent. Increased relaxation should not mean, as is currently the case, the promotion of a unilateral strategy of national aids reduction. More coherence would imply better links between the control of national aids and existing Community policies, notably as regards those regional aids financed by structural funds, or those to promote research efforts. The search for a better level of intervention ought to be continued in order to encourage more Community interventions in certain cases and the continuation of national aids whenever they seem most suitable.

*Preserving and reinforcing the public sector*

The development of a European Social Model requires the construction of public services on a European scale. Under the increasing pressure of competition policy since the 1980s the traditional public services have been dismantled without constructing any substitute at the European level. In this context three different proposals can be made to reinforce the position of the public services.

The first proposal would be to give to the public services a derogatory statute regarding the rules of European competition. It would guarantee the freedom of each member country to implement its own concept of public services with its specific tools and sources of financing, especially concerning the balance between private and public activities. In this approach there would be no common standards and no joint institutions to give a coherent structure at the European level, which might be source of difficulties.

A more ambitious proposal would be the adoption of a European directive defining the basis of public services at the European level and setting up regulatory institutions. This directive would be reduced following sectoral directives to integrate the specificities of each sector. These directives would constitute a counterweight to the competition rules. Various forms of cooperation between firms could be considered. Before further liberalisation and privatisation process, an evaluation of the previous steps would be realised. This assessment would examine not only the performance of the privatized sectors, but also the impact on social and regional cohesion.
The European directive would oblige each member state to define the areas of public services and to explicit their national rules. Clear and comparable information about the meaning of public services and the regulatory structures would be available. As in the previous case, because of different historical traditions between countries, important heterogeneity would remain. But some minimum standards could be adopted, referring to areas regarded as the exclusive domain of public provision or domains where private provision should be regulated (universal access, safety, participation of users). These minimum standards could not be used to lower existing higher standards in certain countries.

A last option would go beyond and define a common European platform of public services which would be obligatory for all member states, with common objectives and joint interventions by EU and national regulators. In this scenario the logic of increasing competition and liberalisation would be clearly constrained. But this common platform would be difficult to define due the large differences in the national traditions.

In the case of European network services, liberalisation policies should be accompanied by an infrastructures planning, particularly in the area of transports and telecommunications. This should include large public investments and the definition of common European rules and standards. These infrastructures programmes would be able to strengthen the potential growth of the whole EU and would be based on a broad evaluation of the networks externalities.

3.2. A new design for trade policy

*Another conception of the WTO*

The functioning of the WTO, as it is today, is one of the main instruments for the dissemination of liberal policies as it imposes across-the-board liberalisation measures without taking into consideration national specificities or unequal development levels. The WTO is largely dominated by big powers which contribute to fixing in advance the main negotiation orientations. Such functioning is increasingly criticized by large coalitions. Three points could be put forward by the EU to promote another conception of the WTO.

The democratization of the WTO is necessary to establish a more balanced functioning. This implies a reinforcement of the developing countries’ weight within the WTO which goes beyond today’s simple formal rule, i.e. one country, one vote (fixing of agendas, chairs of conferences and working committees).

The liberalisation rules should no longer be across-the-board decisions vis-à-vis developing countries and should take their unequal development levels into consideration. The principle of differentiated treatment was emptied of its contents by the liberalisation wave. It ought to
be restored within the WTO while taking into account that constraints can no longer be exerted as before because of the existing obstacles to development. Redistribution mechanisms at global level could be included in the WTO’s principles according to the level of development. Developing countries could thus benefit from a more flexible management of IPRs, just like what has already started to be done for drugs, or maintain some protections in terms of market openings, public procurement policies or foreign capital investments.

The respect of fundamental rights (the right to health, the respect of fundamental labour laws, the defence of the public services) should be put besides the preservation of the environment which has already been recognized by the WTO. It should not be considered as an excuse likely to rekindle protectionist attitudes that would put the free trade principle into question, as often denounced by WTO’s experts.

*New orientations for the WTO.*

Northern countries should negotiate favourable asymmetries with respect to developing countries so as to allow them to make up for their development backwardness within the next 20 years. Temporary protection could be accepted jointly with the pursuit of Northern countries’ opening-up their economies of further trade. Contrary to its current positions, the EU would stop forcing some countries to open their markets more widely and to oppose those who refuse to lower their tariffs.

A similar asymmetry should also be established for the ‘Singapore issues’. As it has already been decided since July 2004, the EU should no more put them forward, even reduced to public procurement and trade facilitation.

Recent regional agreements ought to be similarly altered. While intra-area liberalisation must be encouraged so as to increase regional integration, some asymmetries that are favourable to less developed regions ought to be negotiated.

IPR agreements ought to be made more flexible to help developing countries and encourage the development of national industries: reduction of the length of patents, introduction of special dispensations concerning the regulation on imitations.

In relation to other industrialised countries, the EU ought to put make clear the specific features of the European model that it intends to preserve without limiting itself to the sole cultural exception. The main ones are the European social model and its implications in terms of health policy, pension system, redistribution policies and the choice for more equity. Public services are also a major issue and are not reduced to a simple universal service. This question also refers to the renegotiation of the GATS that will be dealt with later on.
The EU should also aim for a return to a more balanced situation with its partners in three sectors: European public procurements and financial markets that were opened without any counterpart and for which the reciprocity principle should be the rule, the IPRs about which the EU is increasingly on the defensive.

The shortcomings of European research as regards IPRs play a key role. Europe’s inability at setting up a true community patent that would be valid for the whole Union should also be overcome. The implication of National Offices’ lobbies is partly responsible for the current situation, as well as the poor standard of some national courts competent in the subject, added to the absence of a European court. Besides those typically European weaknesses, America’s excessively dominating positions ought to be more firmly fought against (Coriat, 2002).

The DSB’s functioning ought to be completely overhauled. While guaranteeing the multilateralism principle, the DSB ought to be deprivatised and placed under control of the United Nations Organisation. The sectors or areas likely to be the subject of unrestricted negotiations within the WTO ought to be clearly separated from those to be placed under the aegis of the United Nations’ competent bodies, so that rules and standards could be fixed. The WTO should then be in charge of applying trade sanctions in this framework. In the case of IPRs on drugs for instance, the World Health Organisation (WHO) ought to be the place where rules concerning IPRs and trade are fixed according to the sanitary situation. For genetically modified agricultural products, trade regulation should be fixed in agreement with the Food and Agricultural Organisation’s (FAO) competent bodies. For social standards trade sanctions could be imposed on countries that do not abide by basic labour laws in order to allow the ILO to fulfil its controlling function. Lastly a global institution coming under the United Nations would cover and coordinate the WHO’s, FAO’s or ILO’s different sectoral bodies that would contribute to the fixing of those standards and regulations. Greater political legitimacy and better coordination would thus be ensured (Cling and alia, 2003).

As regards their form, negotiations ought to be conducted on behalf of the EU, not by a Commissioner who makes proposals and then gets mandated to negotiate by the Council, but by a Council representative, a ‘Mr/s Trade’ who would benefit from a clearer political legitimacy as the representative of national governments.

Renegotiating the GATS

The 2003 Commission’s liberalisation proposals were, in its own terms, ‘significant and substantial’. Though education, health and culture are left aside and the goal of a universal service is preserved in the postal and telecommunication services, no real guarantee was given for future negotiations within the GATS framework. In its principle, the GATS encourages a
gradual and general liberalisation. Various statements show that education and health will be eventually threatened.

In order to avoid such a drift, it is essential that the European Union’s mandate to negotiate for the whole of Europe should lie on a clear idea of public service at European level going beyond the mere notion of a universal service. Public services correspond to the supply of goods and services that are essential to everyday life and to the exercise of the human being’s fundamental rights. They bring an essential contribution to the economic and social cohesion of the territory. They should be given a specific status in negotiations so as to be clearly kept out of any future liberalisation proposal.

3.4. Common Agricultural Policy: an overall reform

Since the late 1990s’ budgetary constraints, the new stakes of the Eastern enlargement and WTO’s negotiations have reinforced pressure for radical reform of the CAP. Facing the insufficiency of the reforms proposed, it is preferable to return to Roosevelt’s theory and to admit the existence of an ‘agricultural exception’. Agricultural products cannot only be governed by the sole laws of international trade. Two kinds of proposals can be made regarding first the price support mechanisms, second the rural development policy.

A guaranteed prices system with individual quotas

The instability of agricultural markets, by increasing risks, has very negative effects on all agricultural activities which, in the medium term, largely counterbalance the gains resulting from the exploitation of comparative advantages (the risk of desertion and disintegration for European countries’ rural regions, the absence of any short/medium-term alternative activity in the poorest countries). The positive effects of trade development can only be effective if the free markets’ perverse ones are corrected by agricultural policy measures in developed as well as developing countries. The lessons from the past show us that this implies price supporting measures, provided production surpluses are avoided thanks to production control mechanisms.

Guaranteed prices systems then ought to be linked to production quotas. These prices must be high enough to lead farmers to produce. Quotas must be individualised and fixed so that the sum of individual (and national) ones is slightly inferior to the European Union’s total consumption. Overproduction is thus avoided and the market itself can make the necessary adjustments between European domestic demand and domestic and international supply. In this case imports are therefore free. If such a mechanism were set up within the whole European Union, it would help to stabilise the international system.
Consumer prices are determined according to international prices and consumers have to bear the consequences of international markets’ fluctuations. The difference between consumption prices and farmers’ guaranteed prices is compensated by public subsidies. Guaranteed prices differ between one region and another according to development and productivity levels. Production quotas are exchangeable, but not between different regions in order to avoid geographical concentration problems, as was the case abroad (for example, milk in Quebec). Lastly, individual quotas may be used to reduce production, notably in the case of big farms.

Production quotas generate rents that can be estimated through the variation of quota prices (since those quotas are tradable). Regular negotiations can be a means to limit an excessive rent increase.

Within such a framework, the integration of eastern European countries might take place on a more balanced basis, without any distorting effects between countries since the same rules would apply (guaranteed prices with production quotas so that the sum of quotas should remain inferior to the European Union’s total domestic consumption). Quotas would be evaluated in each country on a historical basis, with productions whose future growth potential would be limited, which would eliminate overproduction fears. Guaranteed prices would be high enough so as to ensure a significant evolution of farmers’ income and allow the modernisation of their production methods. They should not be too high however so as to avoid a discrepancy with the evolution of non-agricultural revenues.

Similarly, a more balanced solution could be reached as far as Euro-Mediterranean Agreements are concerned. The principle of free imports would imply new opportunities for those countries’ agricultures. The importance of this move should however not be overemphasized since European farmers would continue to benefit from substantial subsidies. Mediterranean countries’ agricultural potentialities should also be put into perspective. Those countries tend to have a deficit of their agricultural trade because of the rise of cereal imports resulting from their population increase. They have to face the necessity to develop their food self-sufficiency, which would mean the setting up of dynamic agricultural policies that would not quite match free trade principles. The CAP reform then appears as a rather secondary matter.

This rather balanced proposal raises however two types of problems: The setting of guaranteed prices is always a difficult exercise, implying strenuous negotiations on account of numerous pressures. Past experience over 40 years of CAP
suggests that all necessary adjustments would be feasible. The existence of periodic
negotiations is a guarantee that the necessary adjustments could be realised.
This proposal is also out of tune with the WTO’s rules, which is not surprising as it lies on the
idea that agricultural products cannot be governed by the sole laws of international trade.
Agricultural subsidies, within the WTO framework, are only allowed restrictively. Some are
acceptable (‘the green box’: environmental subsidies, rural development subsidies, ...) but lie
on the ‘decoupling’ principle (absence of link with output levels or current prices). Others are
not acceptable (‘the orange box’: measures to sustain prices or subsidies that are linked to
production levels) or should be progressively reduced. The ‘blue box’ category is
intermediate and corresponds to the situation where farmers have to limit their production,
which may be considered the case with quotas.

*Improve the rural development policy*

The second pillar should address the development of rural areas with a multisectoral,
integrated approach. Environmental concerns need to be included as much in agricultural
aspects (water, soil, production practices) as in the territorial side (sustainability, impact of
tourism and industries, energy production and consumption...). There is the need to combine
decentralisation – at regional and local level which are likely to be more efficient and
effective - with coherent rules of an overall character. Both territorial and sectoral functions
should be regulated at European level, establishing the general principles, eligibility of areas
and rules of the game.

Defensive policies based on generically defined disadvantages are by far predominant over
pro-active ones for specific situations. Diversification of activities has already occurred in
many areas spontaneously. It has opened new markets and technological opportunities and
improving the attractiveness of rural areas. Therefore a more positive and forward looking
rural policy should be encouraged instead of maintaining its defensive and compensating
character.

3.5. A continued regional policy in the context of Eastern enlargement

European regional policy faces traditional problems due to the complexity of the procedures
and the difficulty of management of the projects financed by Structural or Cohesion funds. In
some cases, the endowment is under-used because of problems of definition and coordination
between the different participants; in other cases, the usefulness of projects can be discussed.
But the Eastern enlargement of the EU brings new challenges. In this context, three scenarios
can be considered.
If the EU budget limit were to remain at its present level (1.27% of the EU’s GDP), there would be a strong temptation to reserve the Structural funds, for the main part, for the use of the new members. In the EU-15 regional policies would be renationalized, which would accord with the fact that regional policies are already mainly financed by national and local budgets. Moreover neo-liberals consider that regional problems should largely rely on market mechanisms and on private capital flows. However this prospect raises two kinds of issues. The current EU members, especially the richest ones, would be excluded from any European financing. This situation would be difficult to manage in the long term, the richest countries becoming more and more reluctant to finance a solidarity mechanism from which they would be permanently excluded. On the other hand, the new members, who have made clear their doubts regarding the implementation of any European economic government, would be in a rather paradoxical situation where they would benefit from transfers without accepting a political counterpart.

In a more favourable perspective, the EU’s budget could be progressively raised to around 5% of GDP at medium term. This would give more room to manoeuvre, for instance by raising the eligibility threshold for Structural funds to 90% of the EU’s GDP per capita. A larger number of less developed regions could benefit from transfers, including some regions in the more advanced countries of the EU-15.

Regarding the new entrants, a ceiling of 4% of GDP for the transfers could be adopted due to the limited absorption capacity of the new entrant countries. This would give a cost estimated between 0.18% and 0.38% of the EU GDP, according to whether the estimation is made in current prices or in purchasing power terms. On the whole, this cost would be bearable.

Neither of these first two scenarios is very likely, due to the political environment. A new compromise might be sought in two directions at once. As for the previous institutional changes, new Structural funds could be created and dedicated to the new members, which would be financed by borrowing through the EIB and the European Reconstruction Development Bank (ERDB). The present Structural funds could be shared between the EU-15 members and the new entrants, with a re-negotiation of the eligibility threshold, in order to give both groups of countries sufficient funds. Lastly, the procedure of the Structural funds could be reformed in order to improve their efficiency. More autonomy could be given to the local, regional and national development plans with the Structural funds playing a complementary role, without too tight an examination by Brussels’ bureaucracy. High levels of support for lagging countries would be linked to broad public investment strategies.
Objectives for eligible EU-15 regions would be determined by country and regional indicators in order to increase the consistency.

In the short term a proposal of an additional budget of 0.5% of GDP could be presented in order to reduce the regional policy conflict between enlargement, budget problems and ongoing cohesion in the EU. The EU’s 15 regions would get as much as in the 2000-2006 period, and there would be another 22 billion euros for the accession countries. In this case the 4% limit which was set due to the limited absorption capacity would be lightened.

3.6. Conclusion: a coherent programme for European structural policies
The overall cost of all the proposed measures regarding the European structural policies can be estimated at 1.3% of the EU GDP on the medium term (0.4% for research, 0.4% for main projects and 0.5% for regional policy). The CAP will be deeply reformed inside the same budget.

Those measures make up a coherent programme. As far as the European industrial policy is concerned, technological programmes, as well as the renewal of sectoral interventions along with standardisation and patent policies, are linked to the research policy. Regulatory policies and main infrastructure programmes are complementary with liberalisation and service networks policies. Research policy and large infrastructure are linked to regional policies. The CAP plays a key role in the preservation of regional balances. National aids ought to be rationalised, not with a view to slashing them, but in order to define the best level of intervention (regional, national, European) and to achieve more effective coordination with European policies.

The difficulty to organise such new research or industrial policies at the EU level must not be underestimated. All the European countries are not ready to advance at the same speed. The formal procedure of enhanced cooperation is heavy to implement and restrictive and has not been successful since its first introduction in 1997. More pragmatic way of cooperation could be undertaken between groups of countries ready to explore new forms of cooperation in fields like trans-European infrastructures programmes or Technological European agencies.

The new design of the European Trade Policy is based on another conception of the WTO. The liberalisation rules should be applied less uniformly and should take into consideration the level of development and the national specificities. The respect of fundamental rights should be reaffirmed.

New negotiation lines should be proposed by the EU by offering to the less developed countries favourable asymmetries regarding trade openness, regional agreements or IPRs.
Vis-à-vis the other developed countries the EU ought to put forward in its trade policy the specificities of the European Social Model. The functioning of the DSB has to be completely reformed. The DSB should be put under the control of the United Nations with the creation of a new global institution. At the EU level negotiations should be conducted by a represent of the Council with a clearer political legitimacy than a simple Commissioner. Lastly, to avoid the current liberal drift within the GATS framework, the mandate of the EU in the negotiation has to be redefined and lie on a strong notion of the public services.

Two kinds of proposals have been made for a complete reform of the CAP based on the idea that agriculture products cannot be governed only by the laws of international trade.

A guaranteed prices system with individual quotas would be fixed, so that the total of the individual quotas be slightly inferior to the EU’s consumption. Over production would be avoided and the market would make the adjustment. Individual quotas might be used to reduce production, especially in the case of big farms. In this framework the integration of Eastern European countries and the relations with Euro-Mediterranean countries would take place on a more balance basis.

A more proactive and forward looking rural policy, dealing both with agricultural and territorial problems, would be encouraged, instead of maintaining its defensive character. A multisectoral approach, including environmental concerns, would be developed combining decentralisation and coherent rules at the EU level.

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