

Bargaining Power and Negotiation Tactics: Negotiations on the EU's Financial Perspective, 2007-2013

Andreas Dür and Gemma Mateo

DEI Working Paper 08-2



UCD Dublin European Institute

Working Paper: © Andreas Dür and Gemma Mateo 2008

This paper should be cited as follows: Andreas Dür and Gemma Mateo, Bargaining Power and Negotiation Tactics: The Negotiations on the EU's Financial Perspective, 2007-2013, UCD Dublin European Institute Working Paper 08-2, May 2008.

All opinions expressed are the sole responsibility of the authors.

Cover Photo: © European Community

About the Authors

Dr. Andreas Dür is Lecturer in the School of Politics and International Relations, University College Dublin. Contact: andreas.duer@ucd.ie

Dr. Gemma Mateo is a Postdoctoral Fellow in the School of Politics and International Relations, University College Dublin. Contact: gemma.mateo@ucd.ie

About the Dublin European Institute

The Dublin European Institute (DEI) supports scholarly research and debate on the sources, processes and implications of European integration and governance. Based within the School of Politics and International Relations at University College Dublin, the DEI is the oldest and largest university centre for research on European affairs in the Republic of Ireland.

For more information, see: <http://www.ucd.ie/dei> or contact: Dublin European Institute, UCD School of Politics and International Relations, University College Dublin, Belfield, Dublin 4, IRELAND (email: dei@ucd.ie)

Bargaining Power and Negotiation Tactics:

The Negotiations on the EU's Financial Perspective, 2007-2013

Andreas Dür and Gemma Mateo¹

Abstract

We argue that in intergovernmental negotiations in the European Union, large member states, countries with a good alternative to negotiated agreement, and governments facing domestic constraints are more likely to resort to hard bargaining tactics than less powerful member countries. We test this prediction with data from a survey with high-level officials from all EU member states for the case of the negotiations concerning the EU Financial Perspective, 2007-2013. The evidence provides support for our argument and casts doubt on studies that suggest either that there are no differences in bargaining strategies across EU member countries or that the main differences exist between old and new EU member countries.

1 Introduction

Under which circumstances do countries resort to hard bargaining in intergovernmental negotiations and when do they opt for softer tactics instead? And, are bargaining strategies purely determined by the negotiation context or is there systematic variation with respect to the choice of tactics across different countries? Very little empirical research has been carried out on these questions so far (Odell, 2002). Indeed, few hypotheses have been put forward that could be tested empirically, since most publications dealing with negotiation tactics are of a prescriptive nature (see for example, Raiffa, 1982; Fisher and Ury, 1981). The stated purpose of these publications is to teach negotiators to negotiate effectively – that is, to maximize either common or individual gains – rather than to assess what tactics negotiators actually use and why.

¹ We are grateful for comments on earlier versions of this article from Simon Bulmer, Ole Elgström, Diana Panke, and the participants in a Dublin European Institute research colloquium. The article is part of a project entitled “Ireland and ‘Grand Bargains’ in the EU”, financed by the Irish Research Council for the Humanities and Social Sciences (Government of Ireland Thematic Project Grants 2006/2007). Gemma Mateo would also like to thank the Generalitat de Catalunya for a Beatriu de Pinos postdoctoral scholarship. Finally, we are grateful to Niall Morris for research assistance.

We start filling this gap in the literature with a study of negotiation tactics in intergovernmental negotiations in the European Union (EU). In particular, we focus our research on the negotiations concerning the EU's multi-annual financial framework for the period 2007-2013 (called Financial Perspective), which started in 2003 and which were concluded in 2006. A multi-annual financial framework establishes the amount to be paid by each individual member state, and the allocation of EU funds to broad policy areas. This case appears propitious for our purpose of studying the determinants of bargaining strategies for two reasons. First, we are interested in *intergovernmental* negotiations, and the budget negotiations come close to this ideal type – at least the intergovernmental part of the negotiations that lasts from the presentation of a proposal by the European Commission (in this case, February 2004) until a decision is reached by the heads of state or government in the European Council (in this case, December 2005). Second, the intergovernmental negotiations for the Financial Perspective 2007-2013 extended over a substantial period of time, making it easier systematically to study negotiation tactics.

Our argument is that actor characteristics, in particular an actor's bargaining power, influence the choice of tactics. Bargaining power in negotiations can stem from the overall power resources of a country, the best alternative to negotiated agreement, and internal constraints on the ability of a government to make concessions in negotiations. The more powerful an actor is across these three dimensions, the more likely it is to opt for hard bargaining tactics. The reason is that the use of hard tactics is credible only for powerful actors. Weaker actors, by contrast, opt for soft bargaining tactics, as they have to fear retaliation and as their use of aggressive tactics is little credible. By making this argument, we take issue with two alternative views. On the one hand, it may be that there is no variation in the bargaining behaviour of actors. All countries possibly use the same mix of hard and soft bargaining tactics. On the other hand, it may be that repeated interaction leads to the socialisation of countries into a specific bargaining mode. For the EU, this leads to the expectation that old and new member states opt for different bargaining strategies.

This research is relevant for three reasons. First, negotiations are ubiquitous in the EU (Wallace, 1996: 32; Moravcsik, 1998). Nevertheless, so far only relatively few studies have explicitly analyzed negotiation strategies in the EU (for some exceptions, see Lewis, 1998; Elgström and Jönsson, 2000; Niemann, 2004). A study of the strategies used in intergovernmental negotiations in the EU, therefore, should be of

interest to scholars of European integration. Second, the research should make a contribution to the literature on international negotiations. In particular, although previous research has distinguished among different negotiation tactics (Odell, 2002), little is known about the determinants of the choice of tactics. This is astonishing given that the choice of tactics is likely to have an influence on negotiation outcomes – in terms of both who gets what and how likely a negotiated agreement is (Habeeb, 1988; Odell, 2000; Elms, 2006). The framework for analysis that we propose in this paper may help set the stage for an examination of these links. Finally, so far few studies have analysed the empirical case of the negotiations for the EU’s Financial Perspective 2007-2013, or indeed any negotiations for a multi-annual financial framework for the EU (for exceptions, see Laffan, 2000; Lindner, 2006). Research that aims at filling this gap is particularly timely as member states currently review the way in which they should approach future budget negotiations.

The paper is structured as follows. In the next section, we provide a short overview of the negotiations concerning the Financial Perspective for 2007-2013 to set the stage for the analysis of negotiation tactics. In the third section of the paper, we list a series of tactics that can be used by negotiators, and distinguish them by whether they are an indication of “hard bargaining” or “soft bargaining”. We then set out our argument about the importance of bargaining power in shaping the strategies of actors in section four. In section five, we draw on evidence gathered in interviews with representatives from all EU member states that were engaged in the negotiations on the Financial Perspective to empirically examine our argument. We conclude the paper with a short summary of the argument and the major findings.

2 Negotiating the Financial Perspective, 2007-2013

Negotiations concerning a multi-annual financial framework for the EU have to tackle three main questions: the overall amount that should be spent; where the money should come from; and what the money should be spent on (Begg, 2005: 14). Of these three questions, the last is generally the most controversial one: a multi-annual framework establishes annual ceilings for all major budget headings, and thus sets the agenda for European integration for a period of several years. The negotiations are largely intergovernmental, with the key decisions being taken in the European Council among heads of state or government (Laffan and Lindner, 2006: 196). The

European Commission presents the initial proposal, but the debate then shifts to the Council of Ministers, with the General Affairs and External Relations and (to a lesser extent) Economic and Financial Affairs (EcoFin) councils dominating the process. At the end of this intergovernmental process, the European Council has to arrive at a unanimous decision on the framework. The final agreement, however, is only reached after a further negotiation process involving the Council of Ministers, the European Commission, and the European Parliament, which results in an inter-institutional agreement among the three players (Enderlein et al., 2005: 16).

The multi-annual financial framework for the period 2007-2013, the fourth in the history of the EU, was negotiated between 2003 and 2006. The process started in the European Commission, with a series of working groups discussing the main issues between April and July 2003. In February 2004, the Commission presented a first proposal for the framework, which foresaw expenditures of €1,025 billion (1.14 percent of the EU's Gross National Income, GNI). The Commission further specified its proposal in July of the same year, before the process shifted to the member state level. The discussions among member state governments took off under the Luxembourg Presidency in the first half of 2005, with several issues shaping the debates: the amount to be spent overall, with six net contributors to the EU budget demanding a reduction of overall expenditures to no more than 1 percent of GNI; the British rebate, which reduces Great Britain's net contribution to the EU's budget; whether to reopen the decisions made with respect to a spending freeze for agricultural subsidies in October 2002; and how much of the money should go to the new member states. The Luxembourg Presidency presented a compromise between conflicting positions in June 2005, which had an overall volume of 872 billion Euro (1.05 percent of GNI) – 153 billion less than the Commission proposal (Ackrill and Kay, 2006: 11).² The European Council of June 2005 failed to reach agreement on the basis of this proposal, however.

The negotiations continued under the British Presidency in the second half of 2005. Not before 5 December did the new Presidency present a revised proposal, which strongly reflected British interests in maintaining its rebate. Strong criticism made the Presidency table a second revised proposal, but only a German proposal finally allowed for a compromise in the European Council of December 2005. This

² The numbers given refer to appropriations for commitments, that is, the total cost of legal obligations which the EU can enter into during a financial year.

compromise established a ceiling of €62 billion, or 1.045 percent of EU GNI – slightly higher than the two British proposals, but lower than the proposal presented by the Luxembourg presidency. The agreement reached by the member states, however, was rejected by the European Parliament in a crushing vote (only 76 parliamentarians supported the agreement as concluded by the European Council) in January 2006. In mid-May 2006, finally, the European Parliament accepted an only slightly revised agreement, which was signed on 17 May 2006.

3 A Typology of Negotiation Tactics

A negotiation strategy is a “set of behaviors”, and negotiation tactics are the “particular actions that make up a strategy” (Odell, 2002: 40). Existing research has proposed different typologies of tactics in negotiations: distributive versus integrative bargaining (Walton and McKersie, 1965; Da Conceição-Heldt, 2006), value claiming versus value creating (Lax and Sebenius, 1986; Odell, 2002), bargaining versus problem solving (Hopmann, 1995; Elgström and Jönsson, 2000), bargaining versus arguing (Müller, 2004; Kotzian, 2007), and strategic action versus communicative action (Niemann, 2004). Some authors take these various distinctions to be congruous, that is, they assume that they all capture basically the same difference. This is not necessarily correct, however (Kersten, 2001). In the words of Elgström and Jönsson (2000: 686), “The correlation between egoistic concerns and a conflictual approach, and between a common interest attitude and a problem-solving approach is less than perfect.”

Rather than rely on these existing typologies, we conceive of negotiation behaviour as varying on a continuum between the two ideal types of “hard bargaining” and “soft bargaining”.³ Hard bargaining is characterized by conflictual or aggressive tactics; soft bargaining by cooperative or friendly ones. By introducing this distinction, we avoid some problems that arise when using the existing ones in an empirical study of negotiation strategies. In some typologies, the intentions of the actors account for the main difference: are actors genuinely concerned with finding the “best” solution (communicative action) or do they strive for the best possible deal for themselves (strategic action)? And are they concerned with the common interest

³ Fisher and Ury (1981: 13) also distinguish between hard and soft bargaining. Their distinction, however, is different from ours in that they assume that soft bargaining involves accepting one-sided losses, disclosing the bottom line and changing one’s position easily. In our approach, we do not make any such assumptions.

(value creating) or with the private interest (value claiming)? The distinction between integrative and distributive bargaining is not ideal for empirical research, either. Tactics used in negotiations may at the same time be integrative (namely create value) and distributive (namely divide scarce resources). Under specific circumstances, even a threat – generally supposed to be a purely distributive tactic – may help to increase the pie that can be divided in a negotiation. Our typology, by contrast, simply classifies tactics depending on whether they are more or less conflictive. Actors relying on soft bargaining tactics are not necessarily more concerned with the common interest than actors engaging in hard bargaining. Their bargaining is simply shaped by less conflictive moves.

A series of tactics characterize hard bargaining (for similar lists of tactics, see Walton and McKersie, 1965; Odell, 2002: 49-50). First, negotiators may make a strong, public commitment of not giving in, or of not accepting the addition of an issue to the agenda of the negotiations that is dear to the other side. They may already enter the negotiations with a very high opening demand, which clearly exceeds a realistic expectation. In combination with a pledge of not moving away from this position, this is a particularly aggressive tactic. By stressing the “unalterable” nature of a demand, a negotiator communicates firmness rather than flexibility. The tactic increases the costs of making a concession, as this now also includes concerns about “losing face”. In intergovernmental negotiations, one way of making such a public commitment is to emphasize the “national interest” that is at stake. Second, a negotiator may criticize the other side. Such a “shaming” tactic may include demands that the other side moves first with respect to concessions.

Third, the creation of a defensive coalition is a hard bargaining tactic. Such a coalition is explicitly aimed at blocking a compromise. Finally, using a threat is a hard bargaining tactic. A threat is “a message from Party announcing the intention to hurt Other if Other fails to comply with Party’s wishes” (Pruitt and Kim, 2004: 71). It signals to a recipient that the sender is willing to harm the latter, unless the latter abstains from or engages in specific action. A threat can be expressed more or less subtly: it can be an explicit threat with a veto in intergovernmental negotiations that require unanimity, or can come as part of a statement of the type: “We do not want to make use of our veto, but if necessary, be assured that we have the capacity to block an agreement”. Preparing for the implementation of an action that can harm the other side makes a threat even more credible.

Table 1: *Typology of negotiation tactics*

Hard bargaining	Soft bargaining
Making a commitment of not giving in Criticizing the other side	Signalling flexibility Conciliatory statement, praising other side
Defensive coalition Threat	Seeking partners for compromise Proposal for compromise

On the soft bargaining end, the first tactic is signalling flexibility. A negotiator may from the beginning assume a flexible position that stresses the common interest in reaching an agreement. Also during the negotiations actors may publicly signal flexibility, using statements such as: “We are willing to make further concessions if...”. Second, negotiators may make conciliatory statements. Such a conciliatory statement is likely to stress the common interest in a negotiated outcome, and the preferences that one has in common with the other side. It may also involve praising the other side, and thus strengthening the other side’s position vis-à-vis domestic constituencies. Towards the end of a negotiation, a conciliatory statement may be made to help the other side save its face, for example, by publicly stating that the other side did not abandon a position, although this was the case. This tactic is also known as “cost cutting”, as it allows the other side to cut the costs of making a concession (Pruitt, 1983: 168). Third, a soft bargaining tactic in multilateral negotiations is seeking partners for compromise. This tactic may involve making a compromise proposal and then meeting with a reluctant party to ask it to accept the proposal. Alternatively, key players may make joint proposals for compromise. Finally, a negotiating party may make a proposal for compromise. This tactic includes inventing new offers (Fisher and Ury, 1981: 41; Kersten, 2001) and making several proposals, allowing the other party (parties) to voice a preference for one. It may also encompass a proposal for the addition or subtraction of issues to allow for a negotiated agreement.

In short, so far we have provided a typology of tactics that are associated with both hard and soft bargaining (see Table 1). We are confident that this typology will facilitate empirical research into the determinants of the choice of negotiation strategies by both breaking down negotiation behaviour into clearly observable actions and moving away from assumptions about the underlying intentions of the actors.

4 Bargaining Power and the Choice of a Negotiation Strategy

Whereas a substantial literature deals with the question what negotiators *should* do, only few studies advance hypotheses with the aim of *explaining* why negotiators pick one tactic or another (for an exception, see Pruitt, 1983). Among the few studies that empirically deal with strategies, moreover, most argue that the negotiation context (Elgström and Jönsson, 2000), the type of issue that is being negotiated (Da Conceição-Heldt, 2006), the stage of the negotiations (Scharpf, 1997: 146), or the level at which negotiations are carried out (Lewis, 1998) shape negotiation strategies. Walton and McKersie (1965: 5), for example, argue that integrative and distributive bargaining are “rational responses to different situations”. If the nature of a problem makes bargaining a zero-sum game, actors should adopt a distributive approach, while a problem that allows for solutions that can benefit all parties calls for integrative bargaining.

Rather than challenge the findings of this literature, we attempt to respond to a slightly different question: do actors use different tactics when all of the above mentioned factors are kept constant? And if yes, what explains the variation that can be observed? These questions seem to be of central importance in any attempt at coming to a better understanding of the link between negotiation behaviour and outcomes. We argue that there is indeed variation across actors in the strategies adopted, and that differences in bargaining power explain this variation. More powerful actors should be more likely to opt for hard bargaining tactics than less powerful ones. Several reasons underpin this expectation. For one, since hard bargaining can undermine relations between two or more parties (Lax and Sebenius, 1986: 34), it should be used more frequently by actors who have less to lose from such a deterioration of relations. This is the case with powerful countries. Moreover, countries with substantial bargaining power should be less vulnerable to the aggressive tactics that other countries may rely on in response; for example, if the recipient of a threat decides to counter-threaten rather than comply. In short, hard bargaining tactics make sense for a country that does not fear retaliation and that is in a position to implement the threats it utters when push comes to shove.

By contrast, weak actors should opt for soft bargaining tactics, as they have little to gain from giving the impression of being aggressive. The hard bargaining tactics used by weak actors will hardly be credible; and public commitments that are

not credible have negative consequences not only in the negotiations with third actors but also for the reputation of the government in the domestic arena. Moreover, weak actors fear that hard bargaining tactics will make more powerful ones respond in kind. In the context of an iterated game, they will therefore opt for soft tactics to “ingratiate” themselves with the more powerful actors (Pruitt, 1983: 175). Finally, weak actors tend to be in need of a negotiated agreement, and the use of hard bargaining tactics by many actors may reduce the likelihood of an agreement. In short, in the words of one author, “If an actor has no power resources to engage successfully in bargaining, bargaining will have little or no utility” (Kotzian, 2007: 85).

This argument runs counter to a reasoning that sees hard bargaining tactics as a weapon of the weak. Following this alternative perspective, one could argue that in difficult situations weak actors feel compelled to use all tactics available to them to pursue their preferences, including conflictive ones. For example, in war situations, terrorism, guerrilla warfare, and the targeting of civilians, which could be considered highly conflictive tactics, are often considered weapons of the weak. Powerful actors, by contrast, may be able to achieve their objectives without having to rely on threats or any other conflictive moves. They have the resources necessary to make side-payments and thus resolve issues through soft bargaining. Although we find this reasoning theoretically little appealing, it is up to the empirical analysis below to determine whether hard bargaining is pursued by strong or weak actors.

All arguments relying on bargaining power run into the difficulty of defining this concept. We suggest that bargaining power in international negotiations stems from three sources: (1) the overall power resources of a country, (2) the best alternative to negotiated agreement (BATNA), and (3) the constraints imposed upon governments by domestic ratification requirements. There is no doubt that resources, or what has been called “aggregate structural power” (Habeeb, 1988), are a source of bargaining power. In general, it can be assumed that larger countries dispose of greater economic and political power resources than smaller countries. For the case analysed in this paper, we opt for population as the indicator of “size”, as this is an indicator that is also officially recognised in the distribution of power in the European institutions. In fact, Jean-Claude Juncker, prime minister of Luxembourg, directly alluded to this factor when stating: “Greater member states have a greater say. [O]ne has to acknowledge that geography and demography are playing a role” (quoted in Tallberg, 2007: 14). This reasoning leads us to expect that in the negotiations

concerning the Financial Perspective 2007-2013, the member countries with larger populations, such as France, Germany, and Great Britain, should have relied more on hard bargaining than smaller member countries. The first hypothesis hence is:

H1: Large member countries, which dispose of more power resources, rely more on hard bargaining tactics than smaller member countries.

A second source of bargaining power is the best alternative to negotiated agreement (Fisher and Ury, 1981). The BATNA, in turn, is determined by the preferences of an actor and the availability of outside options. Simplifying, parties that lose less from a breakdown of the negotiations tend to have a better BATNA. In the case of the Financial Perspective, a breakdown would have compelled the EU to decide on annual budgets for the period after 2006. In all likelihood, this would have significantly limited the amount of money available to the net recipients of the budget. We hence hypothesize that the net contributors should have been in a stronger position than the net recipients and hence engaged more in hard bargaining. In 2004, Austria, Denmark, Finland, France, Germany, Italy, the Netherlands, Sweden, and the United Kingdom were net contributors to the EU budget (European Commission, DG Budget, 2006: 138). Belgium and Luxembourg were net contributors using operational expenditures only. Three of these countries made particularly large net contributions (measured as percentage of GND): Germany (0.37 percent), the Netherlands (0.48 percent), and Sweden (0.41 percent). Formulated as a hypothesis:

H2: The better the BATNA (in our case, the net contribution to the EU budget) of a country, the more it relies on hard bargaining tactics.

Adopting a two-level game perspective (Putnam, 1988), one can also hypothesize that governments that face a difficult ratification process have more bargaining power in international negotiations. This is based on the classic idea that having one's hands tied in negotiations may be a source of bargaining power (Schelling, 1960). With respect to the negotiations on the multi-annual financial framework, the degree to which the populations of EU member countries are Euro-sceptic is a proxy for the domestic constraints that governments face. The expectation is that governments of countries with a Euro-sceptic population should be able to use this constraint as a source of power. Consequently, they should be able to rely more on hard bargaining than governments with a generally pro-European population. The Spring Eurobarometer for 2005 allows us to assess the extent to which populations in different member states were Euro-sceptic (European Commission, 2005). Among the

old member states, the populations of Austria, Sweden and the United Kingdom had the largest share of people opposed to EU membership. Among the new member states, Malta and Cyprus turn out to have the most Euro-sceptical populations. The third hypothesis hence is:

H3: Governments of countries with populations that are Euro-sceptic rely more on hard bargaining tactics in EU negotiations than governments with pro-European populations.

A possible alternative explanation for variation in the choice of bargaining tactics focuses on the length of EU membership. Soft bargaining tactics may work particularly well for a country that has sufficient expertise to make proposals for compromise. Such expertise will have to be acquired over time. Moreover, the length of membership may influence the degree to which officials are “socialized” into a specific EU culture (Lewis, 1998). Intra-EU negotiations may be based on a specific “code of decency” (Kerremans, 1996: 223), which may have to be learned first. Behavioural norms may develop over “many years of constant interaction” (Stone Sweet and Sandholtz, 1998: 10). New members, consequently, “might have difficulties in adapting to the ‘political culture’ in Brussels where compromise seeking has been developed into an art” (Ungerer, 1993: 82). Indeed, one permanent representative of a member country stated: “Early in our membership we acted tough and we had these positions, ‘Others don’t like it, too bad’” (quoted in Lewis, 1998: 487). For the case of the negotiations over the Financial Perspective, the prediction is for the ten new member countries, which joined the EU in May 2004 (and hence in the middle of the negotiations), to have adopted more conflictual tactics than the older member states. They should not yet have been accustomed to the EU’s “refined form of defending national interests” (Ungerer, 1993: 82). Formulated as an alternative hypothesis:

H4: New member states are more likely to resort to hard bargaining tactics than old member states in EU negotiations.

Table 2 summarises the four hypotheses. To be precise, our expectation is not to find any countries on the polar ends of the continuum between hard and soft bargaining; but we expect more powerful countries to be closer to the hard bargaining pole than weaker ones.

Table 2: *Overview of the predictions for the negotiations on the EU's financial framework, 2007-2013*

Hypo-thesis	Explanatory factor	Hard bargaining	Soft bargaining
<i>The bargaining power hypotheses</i>			
H1	Power resources	France, Germany, Great Britain, and Italy (to a lesser extent Poland and Spain)	Small and medium-sized member countries
H2	BATNA	Net contributors (particularly, Germany, Italy, the Netherlands, and Sweden)	Net beneficiaries
H3	Domestic constraints	Sceptical public opinion in Austria, Sweden, and the United Kingdom (and to a lesser extent Cyprus, Denmark, Finland, France, Italy and Malta)	Countries with a pro-European population
<i>Alternative hypothesis:</i>			
HA1	Length of membership	New member states that joined in May 2004	Old member states

5 Methodology

We gathered data to examine these hypotheses by interviewing high-level officials from all 25 EU member states that were directly involved in the negotiations on the Financial Perspective 2007-13. In total, we carried out 30 interviews, 29 with representatives of member states and one with an official from the European Commission. At the time of the negotiations, most of the member state respondents were either financial counsellors in a Permanent Representation (and hence participated in the meetings of the Friends of the Presidency Group) or high-ranking officials in a ministry. We invested several months of research in identifying and then interviewing the most suitable respondents (September 2007 until March 2008). For some member states, we have more than one respondent, allowing us to cross-check the responses. In the quantitative analysis below we report average responses across the two interviewees for these countries; however, we also checked the robustness of the results when only using the data from the respondent that we considered to be most informed from this country. We include Luxembourg and the United Kingdom in the analysis although holding the presidency during key parts of the negotiations may have made these countries' approach to the negotiations softer than it would have been otherwise. Our reasoning is that with the negotiations going on for more than a

year, both of these countries had enough time to engage in hard bargaining before or after facing the informal constraints imposed on the presidency.

The interviews were structured by a questionnaire, the key part of which asked respondents to rank different tactics on a scale from very important for that country, through important, somehow important, little important, to not important at all. We provided interviewees not only with this verbal but also with a numerical ranking from 5 (very important) to 1 (not important at all). Some respondents gave values that fell in between two categories; we coded these accordingly (for example, 3.5 rather than 3 or 4). We follow common usage when treating this data as if it was interval data (Tull and Hawkins, 1993: 308); that is, we assume that the distances between the various points of the scale are equal. The tactics that we asked about in the questionnaire slightly differ from those listed in Table 1. The reasons for this are that the questions needed to be easily understandable and that the number of closed questions had to be low to avoid upsetting the high-level officials we contacted.

We are confident about the reliability and validity of the data gathered, although it is self-ascribed by the actors, which means that it could suffer from social desirability bias and failings of human memory. Three reasons back this confidence: first, we were very careful in designing a questionnaire with terms that would be understood by our interview partners. Second, the guarantee of complete anonymity and the distance to the events allowed the respondents to speak quite frankly. The condition of anonymity means that in the empirical section below we never refer to any specific country to avoid inadvertently identifying our respondents. The interviewees also were likely to reply sincerely because they knew that we had access to other sources that allowed us to cross-check their responses. We could even probe responses on the spot as we undertook interviews rather than simply distribute a questionnaire. Third, cross-checks carried out with data from other sources and from other interviews in general support the validity of our data. We asked some interviewees to rank countries along the hard versus soft bargaining tactics continuum, and found that they largely agreed with the self-evaluations.

6 Bargaining Power, Tactics and the Financial Perspective, 2007-2013

To examine our argument in a quantitative analysis, we convert the hypotheses listed above into an aggregate index of bargaining power. The reason for using an index is

that we only have 25 cases, which means that including variables for all three hypotheses and a control variable for the length of EU membership in a single model would be problematic.⁴ The data for net contribution that we use are from 2004 (Ministère du Budget, 2007: 37), because this was the latest data available to the member states. The data take into account administrative transfers and the British rebate, as it was on this basis that the negotiations were carried out. Our measure of public opinion is the percentage of respondents stating that the EU was a bad thing in a Spring 2005 Eurobarometer poll (European Commission, 2005).

Using this data, we establish two indexes of bargaining power, both coming with specific strengths and drawbacks (see Table 3).⁵ On the one hand, we create a simple index that is based on the assumption that there are thresholds that determine whether a factor either does or does not provide a country with bargaining power. We hence establish cut-off points, with countries beyond the cut-off point of a variable receiving a value of 1 and countries below the cut-off point a value of 0. We gave 0.5 points for intermediary cases. The cut-off points that we picked are obvious candidates: between Italy and Spain for population (with Poland and Spain treated as intermediary cases), between Germany and Italy with respect to net contribution (the remaining net contributors as intermediary cases), and between Austria and Malta with respect to opposition to the EU (with another six countries treated as intermediary cases). After adding up these points across the three variables we arrive at an index that gives more points to countries with larger bargaining power.⁶ The results lead us to the expectation that countries such as the United Kingdom, France, Germany, Italy, and Sweden should have engaged in hard bargaining in the negotiations concerning the Financial Perspective, whereas countries such as Greece, Ireland, and Lithuania should have opted for soft bargaining tactics.

⁴ We also regressed the hard bargaining indexes on each of the three individual variables that make up our bargaining power indexes, namely population size, net contribution, and percentage of population stating that the EU was a bad thing. While controlling for the variable new member state, all of the variables have the right sign, with the latter two variables statistically significant at 0.03 and the former at 0.06.

⁵ The two indexes are closely related (Pearson's $r=0.89$, significant at 0.001, two-tailed).

⁶ The assumption underlying this step is that each of the three variables has the same weight. We have no reason to believe that another assumption would be more appropriate.

Table 3: The simple and the rank-based indexes of bargaining power

<i>Country</i>	Simple index				Rank-based index			
	<i>Pop. size</i>	<i>Net contr.</i>	<i>Pub. opinio n</i>	<i>Simple index</i>	<i>Pop. size</i>	<i>Net contr.</i>	<i>Pub. opinio n</i>	<i>Rank index</i>
Austria	0	0.5	1	1.5	12	19	23	54
Belgium	0	0	0	0	16	10	6	32
Cyprus	0	0	0.5	0.5	3	12	19	34
Czech Republic	0	0	0	0	15	15	11	41
Denmark	0	0.5	0.5	1	11	18	20	49
Estonia	0	0	0	0	4	6	9	19
Finland	0	0.5	0.5	1	9	17	21	47
France	1	0.5	0.5	2	24	20	18	62
Germany	1	1	0	2	25	23	16	64
Greece	0	0	0	0	18	2	15	35
Hungary	0	0	0	0	14	16	13	43
Ireland	0	0	0	0	8	7	2	17
Italy	1	0.5	0.5	2	22	22	17	61
Latvia	0	0	0	0	6	5	14	25
Lithuania	0	0	0	0	7	4	10	21
Luxembourg	0	0	0	0	2	1	1	4
Malta	0	0	0.5	0.5	1	8	22	31
Netherlands	0	1	0	1	19	25	4	48
Poland	0.5	0	0	0.5	20	11	5	36
Portugal	0	0	0	0	17	3	12	32
Slovakia	0	0	0	0	10	13	3	26
Slovenia	0	0	0	0	5	14	8	27
Spain	0.5	0	0	0.5	21	9	7	37
Sweden	0	1	1	2	13	24	25	62
UK	1	0.5	1	2.5	23	21	24	68

On the other hand, we establish a more sophisticated index by ranking all 25 countries with respect to population size, net contribution, and public opinion vis-à-vis the EU. We ranked countries that are tied with respect to the percentage of respondents stating that the EU is a bad thing by looking at the percentage stating that the EU is a good thing. Assuming that all variables have the same weight, we sum up the ranks across the three variables to arrive at the aggregate rank-based index. The results are similar as for the simple index, with the United Kingdom, Germany, France, and Sweden leading the group of hard bargaining states. At the other end of the continuum are Luxembourg, Ireland, and Estonia.

These indexes, combined with the argument set out above, lead to the expectation of substantial variation in the tactics used by countries in the negotiations concerning the Financial Perspective. Indeed, as demonstrated in Table 4, our survey

Table 4: Variation across countries in the choice of bargaining tactics

	Hard bargaining				?	Soft bargaining		
	<i>Commit</i>	<i>Criticise</i>	<i>Criticise Commission</i>	<i>Veto threat</i>	<i>Coalition</i>	<i>Public concession</i>	<i>Private concession</i>	<i>Praise</i>
<i>Mean</i>	3.3	1.7	2.0	2.0	4.2	2.5	3.3	2.1
<i>Median</i>	4	1	1	2	4	2	3	2
<i>Minimum</i>	1.5	1	1	1	2	1	1	1
<i>Maximum</i>	5	4	5	4	5	5	5	4.5
<i>Std. Deviation</i>	1.2	0.9	1.3	1.1	0.9	1.0	1.0	1.1
<i>N</i>	25	25	25	25	25	25	25	25

reveals such variation. While across all countries some tactics (for example, coalition formation) clearly are more important than others (for example, publicly criticising other countries), the finding is of considerable variation across countries. Based on the four hard bargaining tactics included in our questionnaire, we calculate two indexes of hard bargaining.⁷ The reason for having two indexes is that hard bargaining can be understood in an absolute (how important are hard bargaining tactics for an actor?) and a relative sense (how important are hard relative to soft bargaining tactics for an actor?).⁸ First, we calculate an absolute index by simply adding the points (from 1 to 5, as described above) the respondents allocated to four hard bargaining tactics: publicly committing to not giving in, publicly criticizing other member countries, publicly criticising the Commission, and threatening with the use of the veto. With the aim of making this index comparable to the second one presented below, we convert the values into an index that ranges from 0 (completely soft) to 100 (completely hard).⁹ The fact that we have cases that vary from 3 to 56 on this index provides support for our argument that countries differ in their choice of bargaining tactics.

Second, we calculate a relative index that subtracts the sum of points allocated to the three soft tactics (publicly indicating the willingness to make concessions, privately indicating the willingness to make concessions, and making a public statement praising the approach to the negotiations by another country) from the points allocated to the four hard bargaining tactics. The aim of doing so is to exclude

⁷ We also asked a question on the importance of coalition-building, but could not use the responses as the interviewees did not distinguish between defensive coalitions (a hard bargaining tactic) and seeking partners with the aim of reaching a compromise (a soft bargaining tactic).

⁸ The two indexes are closely related (Pearson's $r=0.69$, significant at 0.001, two-tailed).

⁹ We did so by subtracting 4 from all values to anchor the index to zero, dividing the resulting values by the maximum possible (16), and then multiplying by 100.

Table 5: OLS estimates of tactics on bargaining power

<i>Dependent variable</i>	Hard bargaining absolute		Hard relative to soft bargaining	
	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>
<i>Explanatory variables</i>				
Simple index of bargaining power	18.20*** (5.96)		9.79** (4.17)	
Rank-based index of bargaining power		20.48*** (5.11)		10.80*** (3.76)
New member state?	3.95 (5.96)	3.29 (5.11)	1.16 (4.17)	0.71 (3.76)
Constant	30.88*** (2.49)	30.88*** (2.26)	42.93*** (1.74)	42.93*** (1.66)
Number of observations	25	25	25	25
R ²	0.32	0.44	0.24	0.31

Notes: standard errors are in parentheses. All coefficients are based on standardised predictors.

***Significant at 1%, **significant at 5%.

the possibility that our results are driven by variation in levels of activity across countries, which would mean that some countries have higher scores across all tactics. We again convert the resulting values into an index that theoretically varies from 0 (completely soft) to 100 (completely hard). In practice, we have variation from 29 to 64, which means that variation exists not only in levels of activeness but also in the focus on hard tactics.

To examine the explanatory power of our argument, we regress these indexes on the measures of bargaining power established above. Although the limited number of observations (25) forces us to keep the models simple, namely to include only one control variable in addition to the main independent variable, the results offer substantial support for our argument (see Table 5). We estimate four different models, all using ordinary least square regression, one for each combination of bargaining power and hard bargaining indexes. In all models, the main independent variable is significant and has the right sign, which shows that the findings are quite resilient to changes in the measurement of bargaining power. The rank-based index of bargaining power fares a bit better than the simple index, however.

The substantive effects are even more interesting. Since we standardised the predictor variables, and both variants of the dependent variable are measured on the same scale, the coefficients of all models are roughly comparable.¹⁰ The comparison

¹⁰ The standardising was done by dividing the difference between the variable's value and the mean by two standard deviations. We used two standard deviations to maintain the scale of the binary input variable.

shows that the impact of bargaining power in models 1 and 2 is larger than in models 3 and 4. This finding makes sense: in the former models, the role of bargaining power is likely inflated by the fact that larger countries simply are more active than smaller ones in EU negotiations. Nevertheless, models 3 and 4 show that even accounting for overall levels of activity, an increase in bargaining power is accompanied by a greater reliance on hard bargaining. In substantive terms, the coefficients in model 2 suggest that the weakest countries have an average response of about 1.4 on the four hard bargaining tactics, while the most powerful ones an average response of around 2.95. By contrast, the dummy variable “new member state” is not significant in any of the models, indicating that the new member states did not act differently in these negotiations than the old ones. Overall, the explanatory power of the models as measured by the R^2 is quite good, keeping in mind that we only have two independent variables. This evidence hence confirms our argument, and casts doubt on the alternative hypothesis that sees new member states opting for harder tactics than the old ones.

The qualitative evidence gathered in our interviews confirms these findings from the quantitative analysis. Basically all our respondents stated that there were differences in the approaches to the negotiations adopted by different countries. Moreover, they told us that governments pay substantial attention to the elaboration of a strategy and that power matters for the choice of strategy. The reasoning given was in line with our causal mechanism, namely that weaker countries simply cannot make credible threats. In the words of a respondent from a small member country, “We were anxious not to make any pledges we could not keep” (Interview, March 2008). There was also reference to the fact that public statements by small member countries criticising larger ones were simply not effective. The latter do not even take notice of such comments.

Only few of our respondents stated that there were significant differences in the negotiation style depending on the level of the negotiation, even though according to the interviewees at the highest level (heads of state and government), personality tended to play a larger role than at lower levels. The interviewees were also adamant in stating that in the negotiations concerning the Financial Perspective, the new member states did not negotiate differently than the old member states. This may, however, be a particular feature of such salient negotiations, on which also the new countries were very well prepared. What made the negotiation behaviour of the new

members similar was the expectation – common to all of them – of becoming net recipients of EU funds; a variable captured as part of bargaining power in our argument.

Could the variation in negotiation strategies that we observe simply be a result of countries having to react to proposals made either by the European Commission or the Presidency, which may be more or less favourable to them? While this could potentially be a confounding factor in such an analysis, we are confident that in our case it did not influence the results, as the proposals made by the Commission and the Luxembourg and British presidencies favoured different groups of countries. The initial proposal by the European Commission was quite favourable to the net recipients among the EU member countries. The Luxembourg proposals, and even more so the British proposals, were more favourable to the interests of the net contributors. Over the course of the negotiations, hence, all countries were at some times beneficiaries and at other times losers from the proposals made.

7 Conclusion

The aim of this paper has been to analyze whether there is systematic variation in the bargaining tactics used by different member countries in EU intergovernmental negotiations, and if yes, how the observable variation can be explained. We have argued that differences in bargaining power explain why some countries opt for a hard bargaining strategy while others opt for a softer approach to the negotiations. A quantitative examination of this argument for the negotiations concerning the Financial Perspective 2007-2013 has confirmed that there is variation across countries in the bargaining tactics employed and that differences in bargaining power go a long way in explaining this variation. By contrast, the alternative hypothesis stressing variation between new and old member countries of the EU did not receive support. We are confident that the findings would have been similar if we had analysed other high-level negotiations in the EU. In fact, our interviewees stressed that financial negotiations are not different from other negotiations on overarching issues. Cautious generalizations beyond this paper should thus be possible.

Our conclusion that there exists systematic variation across countries in the tactics adopted in intergovernmental negotiations opens a new field of research. So far scholars have only paid attention to variation across negotiation settings and issues

under negotiation. The typology of tactics and theoretical framework established in this paper should allow for replica studies with respect to other intergovernmental negotiations in the EU. Even more interesting would be to see how the argument set out in this paper stands up in other negotiation settings, such as the World Trade Organisation or international environmental negotiations. After that, we should be able to examine whether there is a relationship between the choice of specific tactics and bargaining success.

References

- Ackrill, Robert and Kay, Adrian (2006) 'The EU Financial Perspective 2007-2013 and the Forces that Shaped the Final Agreement', Nottingham Trent University, Discussion Papers in Applied Economics and Policy No. 2006/1.
- Begg, Iain (2005) 'Funding the European Union: Making Sense of the EU Budget', A Federal Trust Report on the European Union's Budget (London: Federal Trust).
- Da Conceição-Heldt, Eugénia (2006) 'Integrative and Distributive Bargaining Situations in the European Union: What Difference Does It Make?', *Negotiation Journal* 22 (2): 145-65.
- Elgström, Ole and Jönsson, Christer (2000) 'Negotiation in the European Union: Bargaining or Problem-Solving?', *Journal of European Public Policy* 7 (5): 684-704.
- Elms, Deborah (2006) 'How Bargaining Alters Outcomes: Bilateral Trade Negotiations and Bargaining Strategies', *International Negotiation* 11 (3): 399-429.
- Enderlein, Henrik, Lindner, Johannes, Calvo-Gonzalez, Oscar, and Ritter, Raymond (2005) 'The EU Budget: How Much Scope for Institutional Reform?', *European Central Bank Occasional Paper Series*, No. 27.
- European Commission (2004) 'Eurobarometer: Spring 2004', No. 61 (Brussels: European Commission).
- European Commission (2005) 'Eurobarometer 63: Public Opinion in the European Union' (Brussels: European Commission).
- European Commission, DG Budget (2006) 'Allocation of 2005 EU Expenditure by Member State' (Brussels: European Commission).
- Fisher, Roger and Ury, William (1981) *Getting to Yes: Negotiating Agreement without Giving In* (London: Hutchinson Business).
- Habeb, William Mark (1988) *Power and Tactics in International Negotiation: How Weak Nations Bargain with Strong Nations* (Baltimore: John Hopkins University Press).
- Hopmann, P. Terrence (1995) 'Two Paradigms of Negotiation: Bargaining and Problem Solving', *Annals of the American Academy of Political and Social Science* 542: 24-47.
- Kerremans, Bart (1996) 'Do Institutions Make a Difference? Non-Institutionalism, Neo-Institutionalism, and the Logic of Common Decision-Making in the European Union', *Governance* 9 (2): 217-40.

- Kersten, Gregory E. (2001) 'Modelling Distributive and Integrative Negotiations: Review and Revised Characterization', *Group Decision and Negotiations* 10 (6): 493-514.
- Kotzian, Peter (2007) 'Arguing and Bargaining in International Negotiations: On the Application of the Frame-Selection Model and its Implications', *International Political Science Review* 28 (1): 79-99.
- Laffan, Brigid (2000) 'The Big Budgetary Bargains: From Negotiation to Authority', *Journal of European Public Policy* 7 (5): 725-43.
- Laffan, Brigid and Lindner, Johannes (2006) 'The Budget: Who Gets What, When and How', in Helen Wallace, William Wallace and Mark Pollack (eds) *Policy-Making in the European Union*, 5th ed. (Oxford: Oxford University Press), 191-212.
- Lax, David A. and Sebenius, James K. (1986) *The Manager as Negotiator: Bargaining for Cooperation and Competitive Gain* (New York: Free Press).
- Lewis, Jeffrey (1998) 'Is the "Hard Bargaining" Image of the Council Misleading? The Committee of Permanent Representatives and the Local Elections Directive', *Journal of Common Market Studies* 36 (4): 479-504.
- Lindner, Johannes (2006) *Conflict and Change in EU Budgetary Politics* (London: Routledge).
- Moravcsik, Andrew (1998) *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht* (Ithaca: Cornell University Press).
- Müller, Harald (2004) 'Arguing, Bargaining and All That: Communicative Action, Rationalist Theory and the Logic of Appropriateness in International Relations', *European Journal of International Relations* 10 (3): 395-435.
- Niemann, Arne (2004) 'Between Communicative Action and Strategic Action: The Article 113 Committee and the Negotiations on the WTO Basic Telecommunications Services Agreement', *Journal of European Public Policy* 11 (3): 379-407.
- Odell, John S. (2000) *Negotiating the World Economy* (Ithaca: Cornell University Press).
- Odell, John S. (2002) 'Creating Data on International Negotiation Strategies, Alternatives and Outcomes', *International Negotiation* 7 (1): 39-52.
- Pruitt, Dean G. (1983) 'Strategic Choice in Negotiation', *American Behavioral Scientist* 27 (2): 167-94.
- Pruitt, Dean G. and Kim, Sung Hee (2004) *Social Conflict: Escalation, Stalemate, and Settlement*, 3rd ed. (Boston: McGraw Hill).
- Putnam, Robert D. (1988) 'Diplomacy and Domestic Politics: The Logic of Two-Level Games', *International Organization* 42 (3): 427-60.
- Raiffa, Howard (1982) *The Art and Science of Negotiation* (Cambridge: Harvard University Press).
- Scharpf, Fritz W. (1997) *Games Real Actors Play: Actor-Centered Institutionalism in Policy Research* (Boulder: Westview Press).
- Schelling, Thomas C. (1960) *The Strategy of Conflict* (Cambridge: Harvard University Press).
- Stone Sweet, Alec and Wayne Sandholtz (1998) 'Integration, Supranational Governance, and the Institutionalization of the European Polity', in Wayne Sandholtz and Alec Stone Sweet (eds) *European Integration and Supranational Governance* (Oxford: Oxford University Press), 1-26.
- Tallberg, Jonas (2007) 'Bargaining Power in the European Council', SIEPS Report No. 1.

- Tull, Donald S. and Hawkins, Del I. (1993) *Marketing Research: Measurement and Method* 6th ed. (New York: Macmillan).
- Ungerer, Werner (1993) 'Institutional Consequences of Broadening and Deepening the European Community: The Consequences for the Decision-Making Process', *Common Market Law Review* 30 (1): 71-83.
- Wallace, Helen (1996) 'Politics and Policy in the EU: The Challenge of Governance', in Helen Wallace and William Wallace (eds) *Policy-Making in the European Union*, 3rd ed. (Oxford: Oxford University Press), 3-36.
- Walton, Richard E. and McKersie, Robert B. (1965) *A Behavioral Theory of Labor Negotiations: An Analysis of a Social Interaction System* (Ithaca: ILR Press).