

Economists Without Borders Case Competition 2011 Abstract

This paper is an abstract of the presentations of four teams at the Economists Without Borders Case Competition 2011. A committee of five members consisting of the Head of Institute of Food and Resource Economics **Henrik Zobbe**, PhD student Anna Folke, external lecturer **Christian Friis-Bach**, professor **Carl-Johan Dalgaard** and board member of ActionAid Denmark **Steen Folke** evaluated the presentations and decided on a winning contribution. The groups, in general, found that discussions regarding the CAP revolve around topics such as food security and food safety, provision of life support for inefficient farmers, lack of transparency, environmental considerations through cross-compliance, landscape preservation and low transfer efficiency.

Proponents of the CAP argue that **food security** is a central argument for maintaining the support schemes. The CAP implies promoting European production of agricultural goods, which constitute an essential part of EU consumption. The fear is that this production - was it not for the CAP - might otherwise be moved to politically unstable regimes. Furthermore, proponents of the policy stress that **food safety** is ensured if products are produced under EU regulations and subject to strict control. Keeping production within the EU also implies maintaining beautiful **rural landscapes**. Finally, the policy of **cross-compliance**, whereby European farmers must abide by environmental standards in order to receive full support, upholds environmental considerations.

Opponents of the CAP, instead, argue that the CAP provides **life support for inefficient farmers**. Much debate revolves around whether the agricultural support actually impacts on the production choices of farmers. Although subsidies are to some degree uncoupled from production, because they are given as support per acre and not per unit produced, they still have a distortive effect on whether farmers produce.¹ This results in agricultural production continuing in EU despite the fact that the products may be produced more efficiently in developing countries, which have a **comparative advantage** in such production. Without the CAP, developing countries would specialize in producing agricultural products and trade with the EU would increase.

The winning group presented an empirical analysis of the distortive effects of the CAP with regards to international trade. By empirically testing the hypothesis of a theoretical trade model, the group found that the CAP has a significantly positive effect on EU exports to developing countries. In other words, the existence of the CAP implies that EU agricultural exports to developing countries are higher than they would be if the CAP was abolished. **Reducing the CAP will in other words change the flows of trade.**

Another group focused on policy recommendations regarding the CAP. They suggested that both free-trade agreements in general and agricultural policies specifically should be more **transparent**. There should be greater **coherence between goals and instruments** within the CAP such that policies are more targeted and **transfer efficiency** increased. Through an active debate it should be determined how much we are willing to pay for maintaining agricultural production within the EU and the size of agricultural subsidies should be adjusted accordingly. In order to promote developing country exporting the numerous and time consuming **administrative procedures associated with gaining access to the EU market should be reduced**. Furthermore foreign aid should be directed towards building institutions capable of assisting developing country businesses in dealing with these procedures. The **CAP support to farmers should be further decoupled** even though compensation and internalization of positive externalities is still needed.

While there is academic consensus in favor of CAP removal, the policy continues to exist. This prompted one group to focus on how to make **CAP reform more interesting to the public**. It was argued that the incomprehensible size of the **CAP should be made comprehensible** by relating it to other more known expenditures such as *Efterlønnen*, and that a focus should be made on **positive case stories** of how increased agricultural exports have benefitted developing countries by for example eradicating poverty.

¹ Source: De Økonomiske Råd - Økonomi og Miljø 2010, p. 111.