

Modelling the Elimination of the Most Distortive Instruments of the Common Agricultural Policy (CAP)

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"2020 European Agriculture: Challenges and Policies", Pierre Boulanger and Patrick Messerlin (Eds.), Washington DC/Brussels: The German Marshall Fund of the United States, Economic Policy Paper Series 10, May 2010.

Modelling the Effects of the EU Common Agricultural Policy	Productivity Commission Staff Working Paper
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	The views expressed in this paper are those of the staff involved and do not necessarily reflect the views of the Productivity Commission.



Introduction

The Agricultural Policy Cycle (OECD, 2008):

1. Formulation of policy objectives
 2. **Evaluation of the performance of the current policy**
 - Adequate information on the cost and benefits
 - Are the desired objectives achieved?
 - Are some adjustments or a new policy needed?
 3. Establishing characteristics of adjustments or a new policy set
 4. Implementation
 5. Monitoring and evaluation
 6. Getting the process right – removing obstacles to change
- Ex-post cost benefit of removing the most distortive instruments of the CAP
- If one wants to know what liberalizing the CAP might mean, **estimated costs become benefits.**

Outline

- The CAP has undergone significant changes under the 2003 reform
- The Doha Round negotiations are critical
- The EU re-launched regional negotiations (in May 2010 with MERCOSUR)
- Effects of the CAP on the EU and world economies: many transfers, inequities and costs

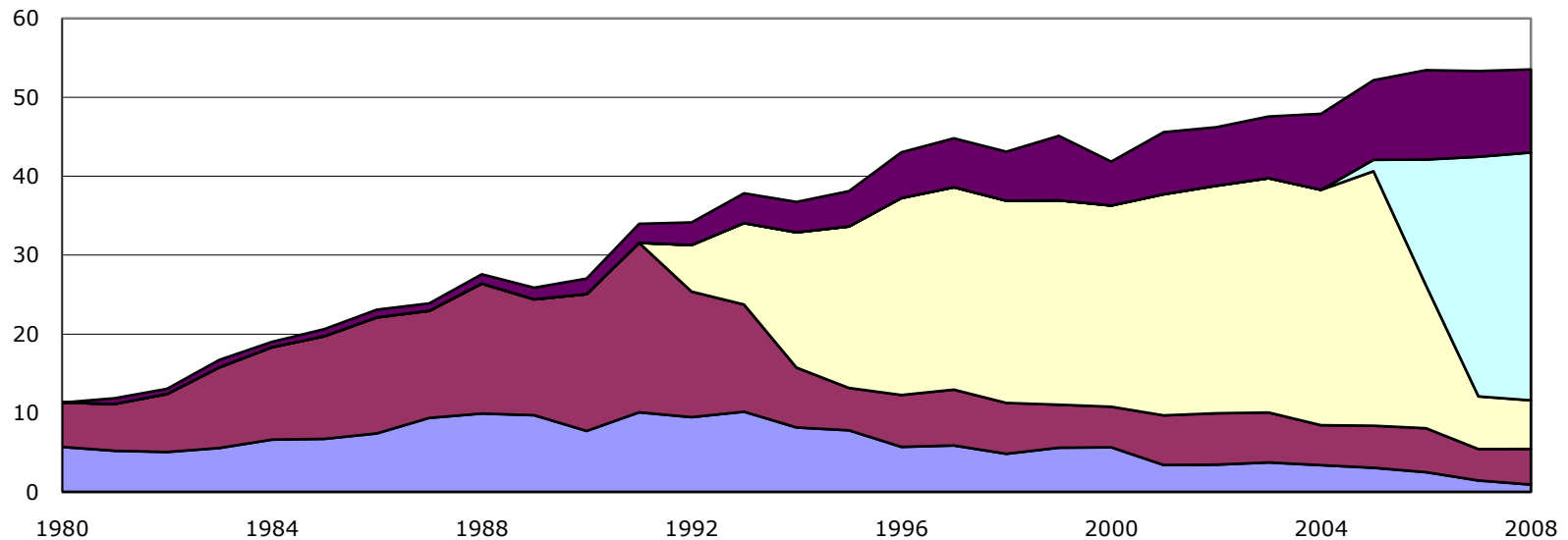
- **Main Results:**
 - European allocative efficiency benefit: 38 billion euros
1/10th Austrian GDP or 1/11th Swedish GDP
 - European economic welfare benefit: 21 billion euros
more than the Estonian GDP
 - World economic welfare benefit: 17 billion euros

Budgetary overview of the CAP

Evolution of CAP expenditures, 1980-2008, billion euros

(source: EC, DG Agri, Unit I.1)

■ export subsidies ■ market support ■ direct aids ■ decoupled payments ■ rural development measures



Modelling strategy

- 2007 counterfactual experiment
- Four modelling scenarios are undertaken with the elimination of:
 - Direct payments
 - Export refunds
 - Border protection
 - Total

- GTAP model version 6.2
- Database
 - Direct payments (2007 rate of assistance)
 - Export refunds, border protection(2004, GTAP v.7)

- Main limits: decoupling issue, cross compliance, other CAP measures (rural development programmes)

Results

- Resource allocation
 - Within a country, you protect a sector to the detriment of the rest of the economy (even within the agricultural sector)
 - Countries being a bunch of sectors, you favor some EU countries to the detriment of the others → EU15 vs. NMS.
- Efficiency costs
 - CAP lowers world farm and food prices
- What follows assumes no change in foreign farm policies (cf. US Farm Bill)
 - Further gains from increased market access if EU liberalisation prompts other economies to do s

Effects of removing CAP's distortive instruments on sectoral output (1)

2007 baseline, % changes

	<i>Crops</i> (+2.08)	<i>Livestock</i> (+3.91)	<i>Food process</i> (+0.83)
<i>(World price variation in %)</i>			
a. Direct payments			
	<i>Opposite effects</i>		
NMS12	0.49	1.98	0.29
EU15	-1.92	-2.52	-0.76
Latin America	0.73	0.44	0.15
b. Border protection			
	<i>Similar but unequal effects</i>		
NMS12	-2.48	-2.41	-5.56
EU15	-6.23	-4.93	-4.92
Latin America	2.25	11.88	4.14
c. Total CAP			
NMS12	-1.97	-0.64	-5.61
EU15	-8.09	-7.64	-6.02
Latin America	2.78	12.70	4.51

Effects of removing CAP's distortive instruments on sectoral output (2)

2007 baseline, % changes

	Manufacturing	Services
<i>(World price variation in %)</i>	<i>(-0.10)</i>	<i>(-0.18)</i>
a. Direct payments		
NMS12	-0.26	-0.01
EU15	0.29	0.05
Latin America	-0.19	-0.01
b. Border protection		
NMS12	1.29	0.20
EU15	1.02	0.10
Latin America	-2.39	-0.06
c. Total CAP		
NMS12	1.12	0.19
EU15	1.35	0.15
Latin America	-2.64	-0.06

Effects of removing CAP's distortive instruments on world economic activity and welfare

2007 baseline, % changes, million euros in 2007 price changes

	'Efficiency' GDP		'Welfare' GDA	
	Per cent	€ million	Per cent	€ million
NMS12	0.44	3,739	0.32	2,882
EU15	0.30	34,395	0.16	18,666
Latin America	-0.06	-1,429	0.26	6,380
Australia-NZ	..	-28	0.19	1,352
East Asia	-0.01	-651	-0.03	-1,803
Rest of Asia	-0.03	-664	0.10	1,865
North America	-0.01	-945	0.03	3,574
Rest of Europe	-0.09	-2,042	0.06	1,327
Africa	-0.01	-115	0.05	410
World	0.08	33,037	0.08	33,037

Summary

- Resources are misallocated
 - across/within sectors, EU Member States and world economies
- Sectors & farms treated very unequally
 - despite changing criteria for entitlements
- Border protection main source of distortions
 - key issue of the Doha Round
- Increasing decoupled payments in NMS will contribute to maintaining an agricultural sector that is too large
- A post-2013 reform is pushed mainly by internal considerations
 - A new rationale for direct payments: from income support to public good funding

Thank you – Gracias – Merci

Effects of removing CAP's direct payments on sectoral output (1)

2007 baseline, % changes

<i>(World price variation in %)</i>	<i>Crops (+2.08)</i>	<i>Livestock (+3.91)</i>	<i>Food process (+0.83)</i>
NMS12	0.49	1.98	0.29
EU15	-1.92	-2.52	-0.76
Latin America	0.73	0.44	0.15
Australia-NZ	0.31	1.07	0.47
East Asia	0.11	0.06	0.11
Rest of Asia	0.15	0.46	0.07
North America	0.50	0.34	0.07
Rest of Europe	0.33	0.35	0.41
Africa	0.63	0.63	0.30

Effects of removing CAP's direct payments on sectoral output (2)

2007 baseline, % changes

<i>(World price variation in %)</i>	<i>Manufacturing (-0.10)</i>	<i>Services (-0.18)</i>
NMS12	-0.26	-0.01
EU15	0.29	0.05
Latin America	-0.19	-0.01
Australia-NZ	-0.22	0.01
East Asia	-0.04	..
Rest of Asia	-0.08	-0.01
North America	-0.07	0.01
Rest of Europe	-0.10	-0.01
Africa	-0.20	-0.04

Effects of removing European border protection on sectoral output (1)

2007 baseline, % changes

<i>(World price variation in %)</i>	<i>Crops (+2.08)</i>	<i>Livestock (+3.91)</i>	<i>Food process (+0.83)</i>
NMS12	-2.48	-2.41	-5.56
EU15	-6.23	-4.93	-4.92
Latin America	2.25	11.88	4.14
Australia-NZ	0.19	3.61	3.53
East Asia	0.83	0.27	0.92
Rest of Asia	0.08	0.50	4.45
North America	1.73	1.03	0.88
Rest of Europe	1.49	1.46	4.98
Africa	0.18	2.14	5.21

Effects of removing European border protection on sectoral output (2)

2007 baseline, % changes

<i>(World price variation in %)</i>	<i>Manufacturing</i> <i>(-0.10)</i>	<i>Services</i> <i>(-0.18)</i>
NMS12	1.29	0.20
EU15	1.02	0.10
Latin America	-2.39	-0.06
Australia-NZ	-0.97	-0.01
East Asia	-0.16	-0.02
Rest of Asia	-1.15	-0.14
North America	-0.19	-0.01
Rest of Europe	-0.84	-0.06
Africa	-0.74	0.03

Effects of removing the most distortive instruments of the CAP on sectoral output (1)

2007 baseline, % changes

<i>(World price variation in %)</i>	<i>Crops (+2.08)</i>	<i>Livestock (+3.91)</i>	<i>Food process (+0.83)</i>
NMS12	-1.97	-0.64	-5.61
EU15	-8.09	-7.64	-6.02
Latin America	2.78	12.70	4.51
Australia-NZ	0.49	4.89	4.30
East Asia	0.96	0.39	1.10
Rest of Asia	0.23	1.07	5.01
North America	2.30	1.50	1.07
Rest of Europe	1.95	1.94	5.90
Africa	0.81	2.93	6.13

Effects of removing the most distortive instruments of the CAP on sectoral output (2)

2007 baseline, % changes

<i>(World price variation in %)</i>	<i>Manufacturing (-0.10)</i>	<i>Services (-0.18)</i>
NMS12	1.12	0.19
EU15	1.35	0.15
Latin America	-2.64	-0.06
Australia-NZ	-1.28	-0.01
East Asia	-0.20	-0.02
Rest of Asia	-1.32	-0.15
North America	-0.28	..
Rest of Europe	-1.02	-0.08
Africa	-1.00	-0.02