

Synthesis on the overall distortionary effects of EU direct payments

Up to now, there has not been a fully satisfactory way to model direct payments. In simulation models, direct payments are often introduced in a reduced form and thus their impact as a whole are not captured (impacts on yields/land values). The fact that these direct payments are defined with additional conditions also increases the challenge of modelling. Econometric evidence on the effects of direct payments is rather limited and faces statistical issues (multi-co-linearity or endogeneity of explanatory variables). Clearly more research is needed to better understand their effects as well to improve the simulation models designed to analyse the impacts of the CAP on markets and agents welfare.

4.3.2 Production and trade impacts of the CAP: the evidence

Externalities for developing countries

The “old CAP” imposed considerable externalities on developing countries, in particular negative externalities on developing-country producers (the effects on urban consumers in developing countries tend to be much more positive, at least in the short term, see Bureau et al., 2006). Indeed, it is well-documented that EU export refunds resulted in significant distortions of competition and drove farm prices down in countries where producers were fully exposed to world markets (Tyers and Anderson 1992).

The combination of guaranteed prices, border protection and export refunds has enabled the EU to sell products at artificially low prices, effectively dumping export surpluses by selling below the costs of production. Non-governmental organisations (NGOs) have documented cases of damage involving EU wheat and sugar exports to Africa, export of dairy products to Jamaica, poultry and beef dumping in Gambia, Zimbabwe and Namibia, and job losses in the canning industry in South Africa due to export of subsidised canned tomatoes, to name but a few. In addition, the EU used food aid in a form of surplus disposal (though arguably less than the United States); this practice contributed to distorting local markets and can act as a disincentive to production.

NGOs have also accused the CAP of discouraging developing countries from adopting an agriculture-based development strategy, which has contributed to the overall neglect of agriculture and rural areas in these countries. Finally, developing countries have repeatedly stressed that tariff escalation in the EU tariff structure discouraged the development of processing industries among developing-country food exporters. At the same time, the changing basis of EU agricultural support makes EU value-added food exports more competitive, and this could have helped take away markets from developing-country producers, according to some other NGOs (ActionAid, 2002).

Obviously, not all these criticisms are pertinent. In addition, many of these issues have disappeared with the reformed CAP, given that exports refunds now represent very small budgets (see Figure 4.1), and that EU domestic support provides much less incentive to produce than the price support mechanisms that characterised the CAP until the 1990s. Some authors still question whether these reforms have fundamentally changed the impact of the CAP on world markets, or whether they have merely reduced to some extent the magnitude of these impacts (Anderson and Josling, 2008). However, the overall distortions for developing countries are much more limited than with the previous forms of support. It is worth noting that that the CAP was recently accused of encouraging the current world food crisis by not encouraging production, by the same organisations that, a few months earlier, had accused the CAP of ruining developing world farmers by dumping excess production (Berthelot, 2008).

The remaining market distortions in EU agriculture obviously still affect developing countries. Although expenditure on export subsidies has fallen sharply in line with the increased level of world prices, they remain important for individual commodities and potentially important if world prices were to fall again. In 2008, for example, NGOs highlighted the adverse impact of the reintroduction of EU pig meat export subsidies for pig production in some West African countries. However, it has been shown that the elimination of the remaining EU export refunds would have little impact on world prices (Bouët et al., 2005). Even on the basis of the export refunds that existed in the mid 2000s, the impact of export refunds on world prices was very small.

Criticisms that high agricultural protection has prevented poor countries from benefiting from their comparative advantages in agriculture also seem exaggerated (Bureau et al., 2006). Indeed, exports from the poorest countries face few tariff barriers, even though EU agricultural protection hurts emerging economies. The combination of the Generalised System of Preferences and the Cotonou Agreement provides generous access to the EU market for African, Caribbean, Central American, Andean and Pacific countries, while the Everything but Arms initiative provides duty free treatment to the 50 poorest countries regardless of their location.

An issue that is often overlooked is the adjustment of EU trade policy according to world markets. In 1996, when world prices for cereals reached very high levels, the EU introduced an export tax. During the 2007-2008 increase of grain prices, the EU suspended tariffs on cereals for several months. The overall consequences for developing countries of this policy have not been fully assessed. However, they seem to have exacerbated the increase in world prices and put a significant burden on food importing countries. In brief, in these two cases, the EU policy generated a significant externality by stabilising its own domestic prices at the expense of net food importing countries.

The net impact of CAP provisions on developing countries

Overall, what would be the consequences of a removal of the CAP for developing countries, given the ambiguous effects of the combined direct payments, price support, dairy quotas and land set-aside described above? Many studies, using either partial or general equilibrium models have attempted to provide a synthetic image of the contradictory effects of dismantling the various provisions (see Gohin and Moschini, 2006, for a review). Most of these studies were based on the old CAP prevailing before the recent reforms and are therefore seriously outdated. Some of the most recent studies were made in the context of Doha negotiations, but not necessarily with a view to isolate the real impact of the CAP.

Gohin and Levert (2006) simulate the effects of a complete suppression of the arable crop policy in the EU. They assess the impact of the current CAP provisions for arable crops, and incidentally compare it with the impact of US support in this sector. The analysis uses two simulation models. One is the agricultural version of the GTAP (Global Trade Analysis Project), i.e. a computable general equilibrium model. The other is a partial equilibrium model that focuses on arable crops (named OLEOSIM), which includes a detailed representation of the EU system of arable crops payments. Both models are used to perform the same experiments and they provide similar quantitative and qualitative results. As we will discuss later for the GTAP approach, we focus here on the partial equilibrium model results.

Simulations suggest that removing the EU policy provisions that support the arable crop sector, and in particular direct payments, would have a significant impact on farm incomes, even when accounting for adjustment in input costs. The production impact would also be significant, but not as high as it was often found in the literature. For instance, removing the CAP would decrease EU production of wheat, corn and rapeseed by 4%, 11% and 8%, respectively.

Given that the EU is now a much smaller actor on world markets than it used to be (the EU became a net importer of agricultural and food product in the early 2000s and large exports of subsidised wheat or dairy products have disappeared), the consequence of removing all CAP provisions on world market prices are more limited. World prices would move only by between 0 and 10%, with most of the effects in the 2–4% range (the world price effects are reported in Table 4.4 below). Interestingly, even though the arable crop sector is less supported according to indicators such as the OECD Producer Subsidy Estimate, the US policy seems to have a greater impact on world price and foreign producer welfare than that of the EU (for instance, see the case for wheat in Tables 4.4 and 4.5). This supports the idea that the externalities of the CAP provisions for arable crops, including those of direct payments, are limited for developing countries.

TABLE 4.4
Impacts on the world price of removing EU/US arable crop policy (in %)

	Suppression of the EU policy	Suppression of the US policy
Wheat	2.10	2.59
Barley	3.13	2.35
Corn	4.24	3.60
Rice	1.96	2.27
Other cereals	6.15	3.19
Rape seed	4.54	3.95
Rape oil	4.61	3.21
Rape meal	2.34	3.70
Sunflower seed	3.94	3.62
Sunflower oil	4.02	3.11
Sunflower meal	1.22	3.54
Soya beans	1.67	5.78
Soya oil	3.61	4.50
Soya meal	0.59	5.20
Cotton	0.42	9.67

Source : Gohin and Levert (2006)

If we now turn to the simulation results using a general equilibrium framework, the results appear to be particularly sensitive to the way CAP payments are modelled. Féménia et Gohin (2008) have devoted a particular attention to the representation of the CAP instruments in their own version of the GTAP model, adapted for agriculture.

TABLE 4.5
Impacts on profits of EU/US policy.

Removal of the EU policy				
	Europe	US	Other countries	World
GTAP model	-20503	11	4283	-16209
Oléosim model	-16041	-1	4643	-11399
Removal of the US policy				
GTAP model	564	-15183	5313	-9306
Oléosim model	508	-13368	6867	-5993

Source: Gohin and Levert (2006)

They first conduct simulations removing EU agricultural tariffs and subsidies, based on the agricultural version of the GTAP described in Keeney and Hertel (2005), where direct payments are calibrated on OECD Producer Subsidies Estimates and introduced mostly as input subsidies. When relying on this rather standard framework, simulations suggest that the EU agricultural policy has a major impact on the welfare gains of developing countries. In particular, developing countries as a whole would benefit from dismantling the CAP, or at least strongly reducing EU agricultural protection and subsidies such as the ones discussed under the Doha negotiations.

Féménia and Gohin then compare these results to those obtained with the same model but with a more detailed representation of CAP instruments (production quotas, the new version of direct payments, intervention price regimes, land market regulation, etc.). Simulation results change significantly when one corrects some of the most obvious simplifications in the modelling of the CAP instruments. Specifically, when EU agricultural production control measures are introduced, the working of the support price regime and direct payments are alternatively modelled, and the initial level of policy instruments and for the bias in trade elasticities are corrected, two main results emerge. Firstly, the impact of the EU farm policy on developing countries is considerably reduced (Table 4.6 reports these welfare effects). For the developing countries as a whole, the benefits they can expect from a removal of the CAP shrink from 5.7 billions dollars with the standard approach to 0.4 billion dollars in the alternative approach. Furthermore, the relative contributions of the export competition and domestic support pillars greatly expand to the detriment of the EU market access pillar. This suggests that if the negative externalities of the CAP on developing countries are difficult to assess, the large number of simulations that have been carried out with standard general equilibrium models have exaggerated the negative impact of the CAP as a whole on developing countries.

External effects of the CAP in a dynamic framework

Market conditions for agricultural products have changed over recent years because of many temporary causes (such as production shocks, financial crises) and some more structural causes (like EU sugar reforms or biofuel policies, see Trostle, 2008). The impacts of a dismantling of the CAP obviously greatly depend on the situation that would prevail in a given time context. Previous figures relate to the past and may not hold for the future.

Several prospective analyses have been conducted which include some structural shifts in their baseline. In particular, the Scenar 2020 initiative (Nowicki et al., 2006) examines the effect of different liberalisation scenarios on the EU agricultural sector in 2020. This study combines different modelling frameworks, designed from the farm level to the world level. Unfortunately, quantitative results are sparsely provided, and CAP instruments (especially direct payments) are not modelled in the same way in all these frameworks. Gohin (2008) uses a general equilibrium model

focusing on EU agriculture, and he obtains results that are, for some sectors, rather comparable to those of the Scenar 2020 study.

TABLE 4.6
Sensitivity of welfare effects of removing EU agricultural policy instruments to modelling choices (equivalent variation in income, 2001 \$US million)

	EU15	US	Japan	Other developed	Total developed	Brazil-Argentina	China	India	Other developing	Total developing	World
<i>Initial modelling</i>											
Export subsidies	2115	-79	-277	327	2086	74	-87	14	-1098	-1097	989
Domestic support	4605	87	-74	189	4806	331	-89	-6	-55	180	4986
Market access	2425	60	-344	978	3118	3611	3	774	1775	6164	9282
Total	7881	25	-717	1421	8610	4345	-213	938	634	5704	14314
<i>Alternative modeling</i>											
Export subsidies	1979	18	-181	277	2093	308	-68	23	-1011	-748	1345
Domestic support	3453	116	-148	244	3665	341	-83	18	-61	215	3879
Market access	-347	183	-113	301	24	323	290	-22	131	722	746
Total	4589	281	-474	870	5266	1073	144	16	-791	422	5709

Source: Féménia and Gohin (2008)

Using this model for a more precise assessment of the effect of the CAP on world prices, the suppression of the CAP is compared to a situation (2015) with full implementation of the recent CAP reforms (including sugar) and full implementation of the EU biofuel directive. Market impacts are reported in Tables 4.7 and 4.8. It appears that dismantling the CAP would have a large effect on coarse grains (corn production would decrease by as much as 33%). Production of wheat would decrease as well due to the loss of EU ethanol production. The impacts on the animal sectors are also significant, especially on beef. Trade and world price impacts are significant in the case of corn, ethanol, sugar, beef and butter. Interestingly the world price of wheat decreases at the end of the simulation following a great expansion of EU exports on the world markets. On the other hand, impacts are much more modest in the oilseed, pork and milk sectors.

Overall, the results suggest that the external effects of the CAP cannot be assessed independently from the EU biofuel policy, more generally from the development of market conditions. The combination of the CAP and the EU target for ethanol reduce EU exports of wheat, but the CAP encourages production of corn and therefore to a reduction of imports and the world price of corn. The CAP also encourages EU production of sugar and beef even after the reforms, and therefore it reduces imports as well as depresses the world price. These effects come mostly from border protection factors, and it is difficult to assess what would be the impact of the CAP on developing countries in the case of a Doha agreement.

TABLE 4.7
Impacts on the crop markets of dismantling the CAP (in 2015)

	Soft wheat	Corn	Oilseeds	Vegetable oils	Oil meals	Sugar	Bio- ethanol
Production (000 T)							
Baseline	98816	34479	14691	7491	9094	13862	7300
Without CAP	85237	23227	14582	7450	9042	11410	0
Difference %	-13.7	-33.2	-0.7	-0.6	-0.6	-17.7	-100
Imports (000 T)							
Baseline	991	2509	2699	1118	498	1724	0
Without CAP	1332	16623	2699	1127	-1362	2106	7300
Difference %	33.3	562.5	0	0.8	-373.7	22.2	
Demand (000 T)							
Baseline	91552	37104	18729	8336	10204	13114	7300
Without CAP	66462	39645	18627	8346	8445	13166	7300
Difference %	-27.4	6.8	-0.5	0.3	-17.2	0.4	0
Exports (000 T)							
Baseline	7829	196	140	342	0	2120	0
Without CAP	20671	204	138	323	0	0	0
Difference %	164.1	4.4	-1.7	-0.8	--	-100	
EU price (€/T)							
Baseline	121	146	300	735	90	404	599
Without CAP	114	120	303	743	94	332	549
Difference %	-6.5	-17.5	1.1	1.1	4.1	-18.1	-8.3
World price (\$/T)							
Baseline	146	118	360	882	107	285	430
Without CAP	137	144	364	891	112	398	659
Difference %	-6.5	22.5	1.1	1.1	4.1	37.8	54.1

Source: Gohin (2008)

TABLE 4.8
Impacts on the animal markets of dismantling the CAP (in 2015)

	Raw milk	Butter	Skimmed milk powder	Whole milk powder	Beef	Pork	Poultry
Production (000 T)							
Baseline	116	1738	1034	771	6532	19447	8869
Without CAP	110	1412	632	709	5028	18549	7822
Difference %	-5.0	-18.8	-38.9	-8.0	-23.0	-4.6	-11.8
Imports (000 T)							
Baseline		0	0	0	462	13	544
Without CAP		122	43	0	2694	18	1311
Difference %					483.1	53.1	141.2
Demand (000 T)							
Baseline	116	1538	920	382	6859	18621	8840
Without CAP	110	1537	699	379	8131	18195	8848
Difference %	-5.0	0	-24.0	-0.7	18.5	-2.3	0.1
Exports (000 T)							
Baseline		201	138	394	48	791	501
Without CAP		0	0	346	90	327	138
Difference %		-100	-100	-12.1	85.6	-58.6	-72.5
EU price (€/T)							
Baseline	239	2462	1973	2035	2843	2747	2913
Without CAP	245	2091	2142	2055	1934	3013	3020
Difference %	2.7	-15.0	8.5	1.0	-32.0	9.7	3.7
World price (\$/T)							
Baseline		1978	2367	2442	3955	3296	3275
Without CAP		2509	2472	2466	4894	3615	4292
Difference %		26.9	4.4	1.0	23.8	9.7	9.2

Source : Gohin (2008).

4.4 Prospective look at the future of the CAP: Dealing with emerging issues

4.4.1 A prospective view of the CAP in the short run: Prospects after the Health Check

The November 2008 decisions that are most likely to modify the findings of the different models described in the previous section include the removal of dairy quotas, the ending of compulsory set-aside, the full decoupling of arable crops payments and the ending of public intervention buying for barley, durum wheat and sorghum in addition to maize. The Health Check will only marginally tackle new objectives. Indeed, the need to address new issues such as price volatility, water and climate change was acknowledged, but did not lead to any ambitious policy. But the Health Check decisions are likely to lead to a greater reliance of market orientation and a better targeting of the multifunctional role of agriculture.

The Health Check should involve only limited changes for developing countries. The main impact will be in the dairy sector, where production concentration is to be expected, but where supply will respond to price signals that up to now have been quite unpredictable. With the end of intervention for coarse grains, the feedstock sector will be even more integrated to the world market. Changes in the modulation system will only involve redistribution of payments within each member state. And until now the decisions for rural development have been so vague that one can hardly assess the potential consequences.

The Health Check exercise is only intended to make adjustments to the CAP that was implemented in 2003, adjustments that are supposed to apply to the 2009–2013 period. The Health Check clearly did not intend to address the issue of the future of the CAP in the longer run. While the CAP budget is more or less protected until the end of the current financial framework, there is a much greater uncertainty about what the CAP will become over time.

4.4.2 The CAP after 2013

No one knows what the CAP will become at the end of the current financial framework, i.e. after 2013. The successive lack of consensus for adopting a EU constitution, and subsequently the Lisbon Treaty, resulted in considerable institutional uncertainty. If several “Eurosceptic” governments were to be elected, this would only strengthen the pressures for fiscal re-nationalisation. In practice, this could lead to “cherry picking” bits of the different treaties, even perhaps a dismantling of the EUs core policies while members opt out from major institutions. The CAP budget in the future financial framework could be reduced dramatically, and it is even unclear whether any “common” policy will remain.

Budgetary discussions and the lack of consensus on whether agriculture needs to be a common policy are likely to be the main driving forces shaping the future CAP, i.e. after 2013. However, new challenges also need to be taken into account. The general context for the CAP reforms since 1992 was one of excess EU production, in an international environment characterised by low or sluggish world prices. The ongoing discussions regarding the future of the CAP take place in a set of very different circumstances (Bureau and Mahé, 2008). There are pressures to meet a growing demand now, rather than for the EU to limit its production. Agriculture is now being asked to produce energy, and the alternative use of agricultural goods as fuels could limit the need for an interventionist policy (oil prices could *de facto* set a minimum price for the grain, oilseeds and sugar market, for example). At the same time, concerns from citizens and consumers are putting pressure for more regulation in the areas of food safety, environment and ethical issues such as animal welfare. This suggests not only that public intervention will still be needed in the agricultural sector, but also that the CAP will have to be redefined, under the constraints of domestic budgetary pressures and a more rigid international framework due to WTO and other EU trade commitments.

The impact of international constraints

International commitments bind the definition of the future CAP. Any reform must be consistent with what is expected to be a future agreement under the WTO, regardless of how close the agreement might be. Because the conclusion of a WTO agreement was largely anticipated during the 2003 reform, the clauses on domestic support are unlikely to prove very binding. A large cut in the Aggregate Measures of Support ceiling (roughly 70%) could be achieved without significant further reforms of the CAP. Further reforms such as a change in the fruit and vegetable entry price regime would give some degrees of freedom for further cuts (Butault and Bureau, 2006). However, international commitments restrict the scope for defining new policies. Should the EU maintain market management policies, they have to fall within the likely limits of the amber box, the Overall Trade Distorting Support and the product specific Aggregate Measure of Support (see IPC 2005 for a synthesis). This rules out “recoupling” of subsidies for example. The end of the “blue box” and very low “amber box” ceilings would remove any possibility for a “target price” policy that would be implemented through direct payments linked to production. It would also make it difficult for the EU to index direct payments on world prices, should the EU consider such an option.

The future CAP will have to be designed without the possibility of disposing of surpluses on world markets through export refunds, due to EU commitments on export competition (even though the commitments of ending export refunds taken in 2005 are subject to a general WTO agreement). In practice, this would rule out the possibility for public intervention to guarantee prices structurally higher than world prices. The only intervention prices that could be maintained are “safety

nets”, i.e. mechanisms that might only work to smooth out market fluctuations. In the medium run, intervention stocks would have to be sold without subsidy. In practice, it requires that the gap between the minimum price and the average world price be very small.

The market access provisions of a potential Doha agreement constrain the design of the future CAP more than the other two “pillars” of the negotiation. The different proposals on the table involve considerable cuts in tariffs, between 60% and 90% for the most protected commodities. As a result, it is likely that, except for a limited number of tariff lines considered as “sensitive”, most EU products will no longer be significantly protected. With the size of cuts that are being discussed, a market management scheme such as intervention will no longer be sustainable since public purchases would be flooded by imports.

The practical consequences of EU agriculture being much more exposed to imports will depend greatly on the world market situation. In most sectors, an agreement might be rather painless if world prices remain steady. However, unless world prices reach previously unheard of peaks, there will be some significant problems in other sectors if tariffs experience large cuts. These sectors include beef, which may affect a large number of farmers. Other sectors with a more concentrated regional impact include poultry, fruits, vegetables and sugar. If prices or exchange rates turn out to be less favorable than expected, sectors such as grains or dairy will also be affected.

The world market situation

According to most institutions that specialise in market analysis, the very high prices observed in 2007 are unlikely to be the rule. However, market fundamentals suggest that the world prices for agricultural commodities should fluctuate around an average level that is higher than the one observed in the 1990s and early 2000s for the next few years. There is, obviously, no certainty, and in the longer run the situation is largely unknown, but the potential prospect of a reversal in the historical trend of declining prices introduces a new environment for the CAP itself and alters the economic and political rationale behind future reforms. Indeed, if world prices remained high, most market support and border instruments would become non-operant or meaningless except in structurally importing sectors with tariffs. Direct payments to commercial agriculture would lose any remaining claim to legitimacy. These new conditions would provide new justifications for government interventions. For example, high prices could boost demand for land and threaten conservation and environmental programmes, requiring more ambitious conservation policies than the present ones. The burden of high food prices could become serious even within the EU, and require new poverty alleviation mechanisms.

Biofuels

The CAP provides incentives for producing crops for energy use, and framework directives set targets on incorporation rates of biofuels in road transport fuel. The main driving force has nevertheless been the measures taken at the member state level aimed at increasing the use of biofuels through tax exemptions, subsidies and, increasingly, mandatory incorporation in transport fuel. This, together with significant import barriers, at least for ethanol, has led to a considerable increase in production over the recent past. Meanwhile, concerns related to the overall environmental effect of biofuels and potential competition for land with food production have led to a strong erosion of the public image of biofuels. The overall use of biofuels still represented less than 3% of transportation fuels in 2007. Nevertheless, they have already had a significant impact on markets, driving up the price of rapeseed oil, for example (Bamière et al., 2008). The costs for member states have become significant, up to the point that several countries are now moving towards decreased levels of tax exemptions and more constraining targets for mandatory blending of biofuels in fuels used for road transport. An intense debate is now taking place both within EU institutions and within member states regarding the setting of targets in terms of percentage of transport fuel filled by renewable fuels. The combination of budgetary pressures as well as environmental concerns is such that one can now consider that support to biofuels in the EU will have to pass both cost benefit analysis and sustainability impact assessment to be continued. There will be a need to keep public support consistent with major market forces, or at least with the valuation of the actual positive externalities.

More practically, either biofuels will have to compete with fossil fuels in terms of cost (either by reducing the production costs of biofuels or because oil prices will be higher), or the subsidies should be in line with what can be considered as a reasonable price for the Greenhouse Gas (GHG) emissions avoided. This raises several questions, about which there is still a considerable degree of uncertainty in the EU. The first one is the extent of the actual positive externalities as far as GHG emissions are concerned. The second one is the actual degree of competitiveness of EU biofuels, compared to fossil fuel and biofuel produced in other countries. All these elements play a crucial role in the cost benefit analysis of the EU programme.

If EU biofuel production were to rely on its own domestic production only, meeting the 10% incorporation target included in the proposed directive would require a considerable amount of land, i.e. roughly 26.2 million hectares or approximately one-third of the current arable land surface in the EU25 (Bamière et al., 2008). This would have a major impact on market equilibria and prices. The production of ethanol could increase significantly in the EU, provided that more resources are devoted to cereals or beets for energy use. However, actually accomplishing this level of production would necessarily entail a reduction in grain exports. It would also require that a high degree of public support is maintained as well as the current

(high) level of border protection, as wheat/sugar-beet ethanol could hardly compete with the Brazilian sugarcane ethanol. The expansion of biodiesel production is more limited. The needed rapeseed acreage that would be consistent with a 10% target would be three times the area currently cropped (both for food use and biodiesel). This increase will not be possible without taking into consideration the harsh environmental concerns that will be voiced due to the intensive-type of agricultural practices needed to grow rapeseed.

The EU budget

At the same time that it conducted the Health Check, the EU started a budget review of all aspects of EU spending, including the CAP and its resources, as well as the rebates earned by several countries after their contribution to the budget. Even though the economic crisis in 2009 has interfered with and somewhat delayed the conclusion of this review, the consequences could be important for the CAP. Preliminary studies have shown that there is no consensus across member states to maintain large agricultural budgets. The search for European added value in EU expenditures will certainly be the key goal of the budget review. Agriculture is seldom mentioned as a sector whose externalities between member states justify large common funding, based on an argument of public goods and fiscal federalism. The financial difficulties of many member states could also exacerbate the pressures for trimming the EU budget, and in this respect, the large CAP direct payments could be a likely target for cuts.

In discussions regarding the future of CAP, there are many sources of uncertainty. Economists have so far been of limited help for shedding light on the costs and benefits of alternative policy scenarios. The methodologies that allow quantitative assessments in these areas are not always conclusive, data are scarce and, overall, these issues clearly fall under the category of “work in progress”. Efforts must be developed in order to provide policy makers with more quantitative analyses of policy scenarios, so as to further the discussions that will take place regarding the debate on the future of the CAP. The design of a new CAP for the post-2013 period would be facilitated if member states could first agree on revised objectives and principles that a common policy should pursue, and for this purpose, they need analytical and quantitative results. Indeed, without a clear assessment of the various policy scenarios, the debate on the CAP that must take place before the next changes in financial perspectives could risk being excessively driven by financial considerations. The debate might also be excessively contingent on market conditions prevailing at the time.

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