

The new economic logic of CAP

# Background

These issues  
apparently appeared  
from **1970s**



Serious reforms  
started from **1990s**



## ◦The overproduction

...because the EU price floor is higher than the world price. Moreover, farmers were driven to invest on the goods supported by the CAP

## ◦Over intensification of agriculture

For examples,

- ◻ EU farmers---less than 5 percent of all the population in the 1970s (almost same as today's)
- ◻ Most of money goes to the largest farm owners ...because the direct payment was linked to the amount of money each farm got.

- ◻ The farm sector's political strength
- ◻ The conflicts between the members
- ◻ The historical background

⇒ These factors made it difficult to implement the reforms.

Thus, CAP had to find the different approach from the just eliminating the price floors

# Target

## Price floor liberalization

- Closing the gap between Market-determined prices and the price floor

## Decoupled payments

- Market-determined price with direct payments to compensate farmers for the price reduction

# Method and theory ①

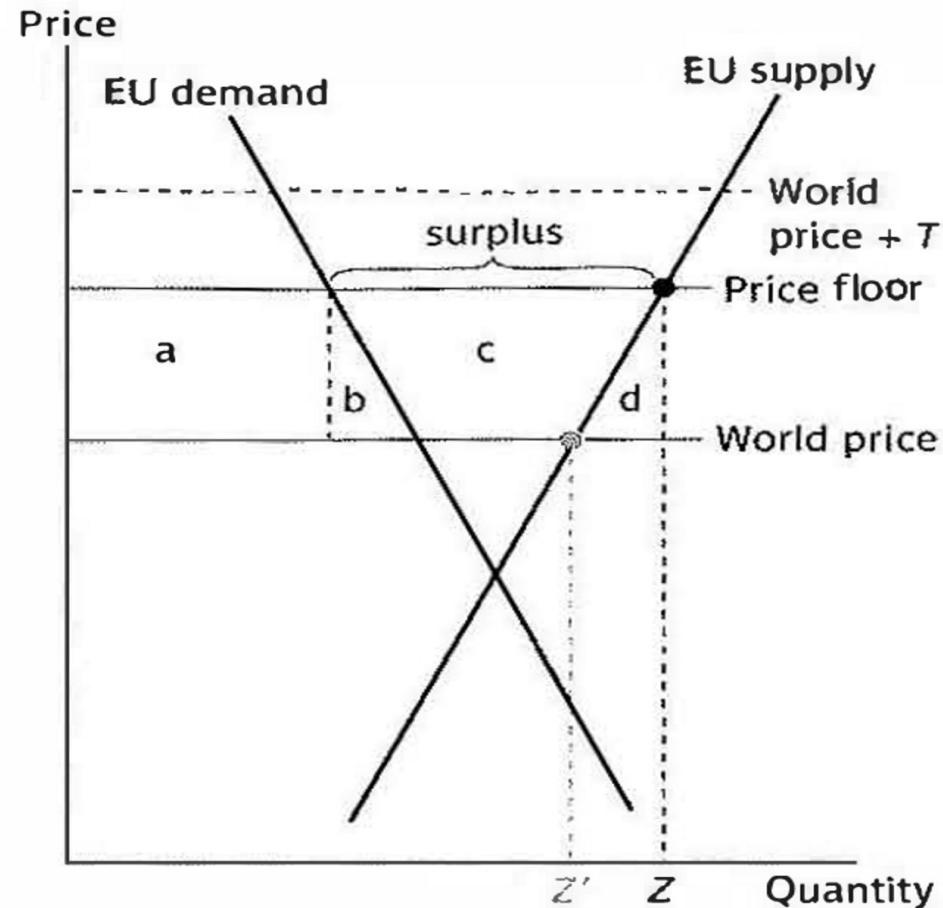


Figure 12.9 The new logic – decoupled direct payments

- We assume that all the surplus food was dumped on the world market.
- the EU buys the excess food and sell them on the world market.
- the surplus area:  $b + c + d$

# Method and theory ②

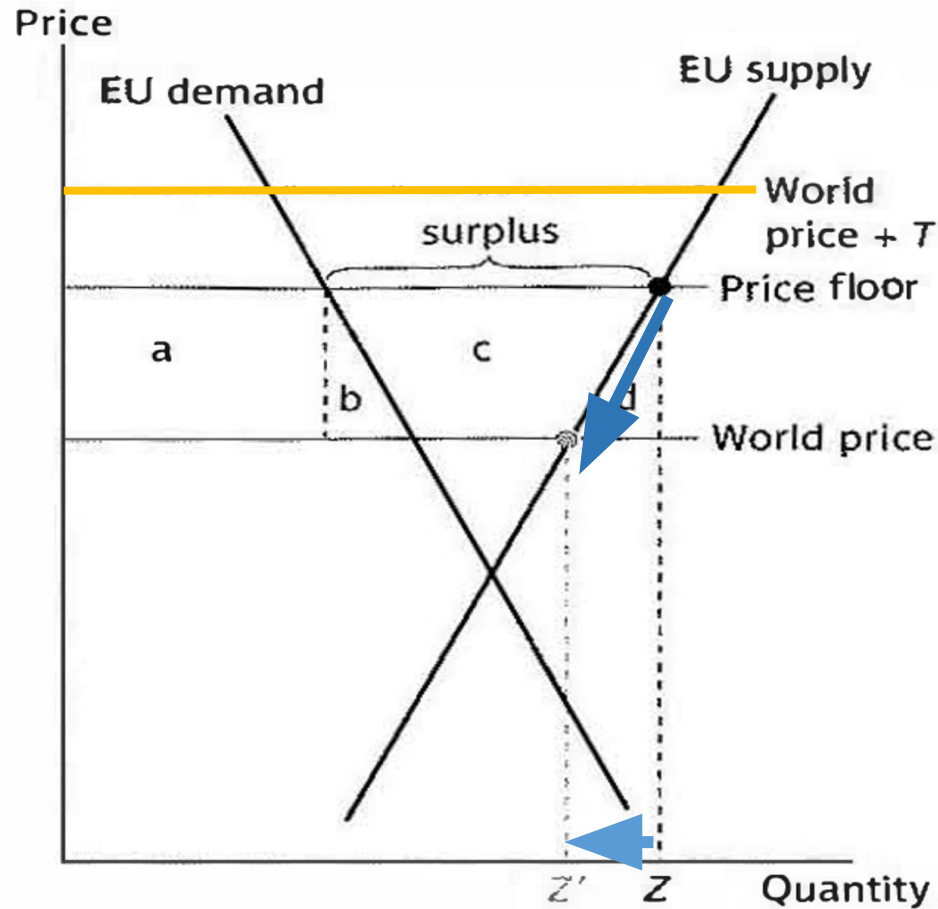


Figure 12.9 The new logic – decoupled direct payments

- Every farmer in the world market wants to sell at the EU price floor
  - To reserve the higher price for EU producers, the world price + T must exceed the floor.
- ⇒ the decoupling reform decreases the price floor to the world price. As the result, production also falls and consumption rises.

# Method and theory ③

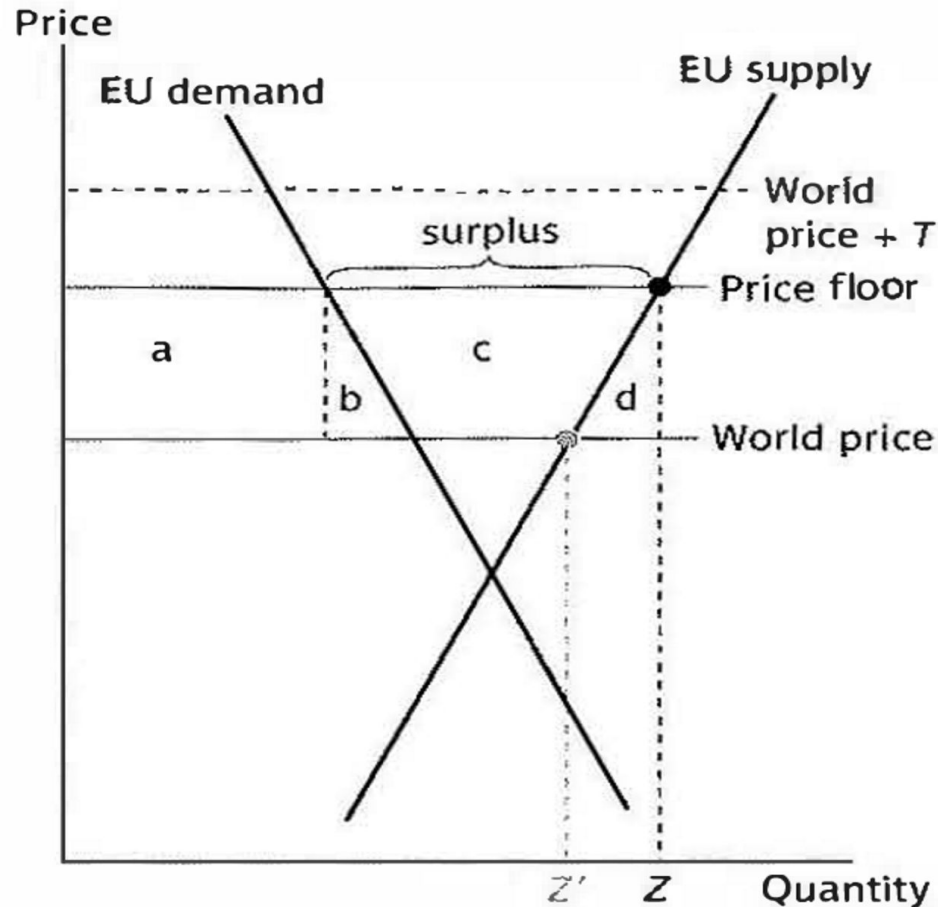


Figure 12.9 The new logic – decoupled direct payments

As the result of reforms, the consumers' surplus:

$$a + b$$

EU farmers lose:  $a + b + c$

EU budget saves:  $b + c + d$

⇒ the net gain:  $b + d$

However, the EU has to compensate for the farmers with direct payments.

If the compensation is fully done, the cost will be higher than before.

$$(a + b + c > b + c + d)$$

# Estimation of the effect, Result

- This reforms were expected to resolve almost the problems that the before CAP had.

⇒ □ the disposal problem      □ the over-intensification of  
    □ the dumping problem      farming problem

⇒ However, there were some left problems.

... □ The budget problems      . □ the farm income problem

This new logic also has some problems, and its implement of the reform needed the time.