

## **Rational CAP and Trade**

Abstract to Brussels, September 2012

Economic trade theory has already been used to prove that export subsidies are negative for the total economic result of the exporting region. Professor Paul Krugman, who 2008 obtained the "The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel", has demonstrated this in his world famous trade theory text book. Furthermore, export subsidies connected to the exports of agricultural products from EU, have other negative effects. The production intensity in agriculture becomes higher than optimal, which leads to increased environmental problems. Another negative consequence is that the prices of agricultural products become lower than in a "perfect" world market, which leads to low income and more instability in the agricultural sectors in developing countries. Without the economically irrational export subsidies, it would become rational for all countries to increase the degree of diversification in production. This in turn, leads to increased biodiversity, which is of environmental importance. System stability follows. Hence, if we optimize CAP with an objective function that considers economics and the environmental development, we should never include export subsidies.

### *Concrete suggestion:*

Initiate a project with the mission to determine how EU can modify CAP in order to determine the environmental and economic Pareto frontier. This frontier shows the highest obtainable level of environmental objectives (such as biodiversity) as a function of the total economic result in EU. Already from the arguments put forward in this abstract, we know with certainty that it is possible to obtain a better environmental and economic situation in EU with a modified CAP. It is however also important to determine exactly how we should redistribute resources from the irrational export subsidies to other fields, in order to improve the environmental and economic situation in the best way.

### *Reference:*

Krugman, P., Obstfeld, M., International Economics, Theory and Policy, Addison-Wesley, 6 ed., 2009

Peter Lohmander

Professor Dr.

Swedish University of Agricultural Sciences

SE- 901 83 Umea

<http://www.Lohmander.com>

[Peter@Lohmander.com](mailto:Peter@Lohmander.com)