

## COMMON MARKET ORGANIZATION A NEW CHALLENGE IN REFORMING THE COMMON AGRICULTURAL POLICY

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### ***Abstract***

*The achievement of any policy, including CAP, involves building a complex operation mechanism, tools and specific levers to ensure the achievement of the objectives at the highest degree. The substantiation of these instruments and their adjustment to the new conditions imposed by CAP field application requires both political measures imposed by the EU Member States as well coordination with the functional mechanism of the free market, in the general context in combating distortions in their application.*

**Key words:** CAP, COM, agriculture, state direct interventions

### **INTRODUCTION**

In the panoply of the instruments to achieve Common Agricultural Policy (CAP) objectives, a place of honor and well-defined is held by the prices mechanism and the common market organization system, elements defined since CAP beginings. To meet the demands imposed by considering the fundamental principles of the Common Agricultural Policy, it was necessary to identify the most efficient instruments of economic policy, that ensure maximum effect, for an economic sector placed at the confrontation between national state interests and the demands about ensuring food security, and revitalizing a fundamental economic sector, through an adequate and abundant production.

As L. Lascoumes and P. Le Gale argue, *public policy instruments*, as is the case with

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Common Agricultural Policy, are means of orientation between political government and society, through mediation under the form of devices which gather technical components (measurements, calculations, state law, procedures) and social components (representation and symbol)<sup>4</sup>. Under these conditions, using optimal combinations of instruments, defining a functional application mecanism, constitute fundamental elements in the design of the Common Agricultural Policy (CAP). CAP thus manages to outline a projection of contrasts. On the one hand it summarizes a number of technical tools, eclectic to the majority of those involved in its implementation, and on the other hand, it resonates of symbolist elements such as the predominance of the family farm and the functionality of a market sometimes highly regulated.

The main tools used in the application of the Common Agricultural Policy, can be grouped, according to some opinions in the literature (Zahiu et al.2003, Chivu et al.2003, Grant, 2010) into:

- Tools which were already abandoned or are effectively obsolete, as in the case of variable levies on imports, the price threshold, target prices, budgetary stabilizers, the mechanisms of transition to green technologies
- Tools which are still used but tend to lose importance over time and are used less and less. As in the case of: export subsidies, intervention prices, production quotas, tariffs, removal of lands from the agricultural circuit, etc.
- New instruments, created in the process of CAP reform which also have a major impact in shaping this policy in the coming years. In this category are instruments such as: decoupling, modulation, the mechanism for financial discipline, the system of single farm payment, ecoconditionality.

The new instruments adopted reflect the massive changes occurred in CAP development in the transition from tools designed especially for market support and price management to those mechanisms centered on rural community development, on the complexity of multifunctional agriculture and on respecting the environmental requirements and ensuring food security.

### **Market instruments in terms of Common Agricultural Policy**

The instruments established in implementing Common Agricultural Policy, have been represented by the common market organization and the existence of price mechanism which were the main characteristic in the existence of this policy. As Fragoso et.al.2011 noticed in their paper *the early nineties of last century, the Common agricultural policy was directed mainly to support markets. Prices have been guaranteed and completed by export subsidies and restrictions on imports. Agricultural production was stimulated by price and agricultural guaranteed incomes which depended on price and quantity of production.*

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4 Lascoumes L., Le Gales P., *Introduction - Understanding Public Policy through its Instruments – From the Nature of Instruments to the Sociology of Public Policy Instrumentation, Governance*, 2007, 20(1): 1–21.

Agricultural markets' policy in the Community area had as objective, in this sense, the application of an active process of guidance and modeling of both agricultural production but especially of price management and market competition, aiming at classifying the products or product groups in a particular regime - common market organization, that respects the fundamental principles of the CAP - Community preference, single market and financial solidarity.

In terms of CAP price mechanisms (Zahiu et al.2003), over time, in the Community area were used the following categories (Chivu et al.2003):

- Indicative prices are set annually for certain products,
- Threshold prices
- Intervention prices
- Indicative prices set by the EU Council of Ministers, at the end of an agricultural year
- The basic price
- Ex-post world price
- The input prices at the border aim at protecting the Community agricultural manufacturers, from the imports of cheap agricultural products from the global market being established by regulation by EU Minister Council.
- The actual price or market price.

European Union is characterized at least in agriculture by the existence of a variety of intervention tools (Kelch (1999), Schmid and Sinabell (2007) or Matei and Done, (2010), Dogaru et al.2011). Intervention prices are one of the most used tools to guide community agricultural production, with direct and immediate effects.

As if we taking into account the data presented by Directorate-General for Agriculture and Rural Development in its yearly report called *Agriculture in the European Union. Statistical and economic information*, at least for 2009, the evolution of most intervention prices had registered significant decreases since 2000. If we consider both the hard and the common wheat, barley, maize and sorghum the level of these prices represents in 2011 only 91.89% of the price for the year 2000/2001. Regarding sugar beet, rice paddy and white sugar, products for which were set based prices of intervention from the beginning of the Single Market, the decrease is more dramatic. The intervention price for paddy rice for the interval 2006-2011 is only 50.27% of the price of 2000/2001, the beet, for the same period only 55.14% and 62.28% for white sugar.

Taking into consideration that the intervention prices are tools introduced to stabilize agricultural markets, and have a strong political character, their level should reflect the EU concerns for the harmonization of contradictions on the agricultural market, especially since these prices are paid by the Community intervention agencies which are thus bound to purchase from the market the production surpluses.

In this regard we appreciate the fact that a significant reduction in the level of these prices is a result of Common Agricultural Policy reform measures through which a dramatic reduction in direct interventionism in the agricultural market was aimed

but most important drainage of market mechanisms. Together with intervention prices, another measure of attendance is the public intervention stocks carried out by intervention agencies for certain categories of agricultural products. Implementing the measure of withdrawal from the market of some amounts of agricultural products and the achievement of intervention stocks for them, in order to balance the agricultural market and to maintain competitive prices for European farmers, followed the general trend of reform policy submitted by CAP in 2003 and 2005, to reduce the role and importance of these mechanisms in the formation of European agricultural market.

Withdrawals from the market aim at removing the surplus of agricultural products and adapting the production to market requirements. These market measures may be accompanied by more severe measures such as do not harvesting and abandonment of agricultural production as well as removing lands from the agricultural circuit.

In the period 2007-2009 implementing the measure of withdrawal of some quantities from the agricultural production and creating public intervention stocks by the specialized agencies had concerned especially the grain production, sugar and dairy products, product categories that because of the historical character of stimulatory production had caused massive imbalances of production.

### **Common Market Organization – the need for reform**

Although the quantity of products withdrawn from the market fell significantly over the period presented, their evolution is syncopated, a sign of inefficient application of such measures. Cereal withdrawn from the market continues to be a central concern of public intervention agencies, through the production volume withdrawn.

Using intervention instruments within the regulated frame of Common Market Organization (CMO) has strengthened over periods four such categories (Zahiu et al.2003, Burny (2010)):

1. *CMO with intervention and protection against outside* represents about 60% of final EU agricultural production and it is applied to a wide range of production from cereals, rice and sugar up to certain categories of vegetables and fruits.
2. *CMO without intervention on the internal market, but with protection from outside* describes the situation of a fully functioning and competitive EU market, where implementing some measures of internal and direct sustenance of prices is obsolete, but which requires protection measures against the outside.
3. *CMO supported through aid additional to prices* are about 5% of final production and aims at those categories of products covered by the GATT / CMO Agreement for which exterior protective measures cannot be applied such as the case of oilseeds and animal feed.
4. *CMO with flat-rate aids to producers* is applied to products of particular importance for the regions of origin which requires support from the Community budget to support the production through amounts and flat rates intended for producers.

Common market organization policy contains a specific model of intervention and regulatory mechanism for each product or product category, but not involving in national regulations specific to the area. Common Market Organization takes into consideration the efficient organization and in an institutional framework of the agricultural products market from farmers, processors to marketing in the conditions of an adequate regulation.

The need for simplification of the management and implementation of the mechanism of operation of Common Market Organization and hence the Common Agricultural Policy in order to increase competitiveness in the agricultural community, has required a fundamental review of the regulatory framework of the intervention tools and of the direct support regimes. Making the Unique CMO Regulation which came into force in 2008 can be considered as the main technique reform that has significantly transformed the way the market within the CAP functions.

Viewed as a whole Common Agricultural Policy is a complex system based on import tariffs, support prices, export subsidies and direct payments, and *since the beginning CAP widely used measures of supporting the prices* (Oxford Economic Forecasting. (2005). The return to the market and to its intimate working mechanisms appears as a natural consequence to the imbalances created during the existence of the Common Agricultural Policy. Although, at first, the philosophy of direct support of production and the protection of domestic agricultural market seemed a functional and successful solution, and the production increased significantly, the negative effects of these measures did not fail to manifest. As shown in the literature, *the immediate result of these policies was the occurrence of stocks and production structural surplus, the export subsidies becoming very expensive, on the background of in-put increases regarding the agricultural sector and the negative impacts on environment* (Burny, 2010).

In this context reviewing the functioning mechanism of CMO and its proximity to the market philosophy, becomes a logical solution to correct these imbalances. Gradually giving up on the financial instruments of direct support, which began with the Fischer reform and the orientation of production accordingly to market demands, is the natural consequence of the European economy evolution at the beginning of XXI century.

The measure to reduce the support price within markets is gradually applied over a period that began in 2000, and culminating with the adoption of the new Common Market Organization Regulation, in 2007 and is accompanied by a series of measures to compensate the decline of the European farmers' incomes. Basically, as a result of this decision there is a shift from the direct support mechanism of prices to the direct support of farmers' income. Agricultural production is no longer related to the direct Community aid, the farmer thus having a wide freedom in terms of production decisions within the agricultural holding.

## CONCLUSION

Adopting the Regulation (EC) no. 1234/2007 concerning the unique CMO is the result of a long process of reform of the CAP, representing a change of attitude in the community agricultural philosophy with deep reflections on both European agrarian structure and on the mode of production as well. The new Common Market Organization regulation is the synthetic expression of returning to the market and balancing the supply and demand in the context of new developments in global agricultural markets and aligning the requirements imposed by the Common Market Organization in agriculture, being also a result of the internal disputes between the old and new EU member states. Through this Regulation the Community agricultural market returns to the traditional principles of the market, although not completely.

The new Common Market Organization incorporates in its structure both elements concerning multifunctional agriculture, eco- conditionality and some levers designed to financially support the farmers, to ensure a balanced transfer from the direct support of production to the support of the farmers' income so as to produce a balance of market demand and supply in the agricultural community.

Reviewing the common market organization and the wide transformations that followed this process, brought together the European agriculture and the market requirements, correcting some of the imbalances that have marked the Community agricultural production, imposing competitiveness criteria to a sector which until then was entirely dependent on the measures of direct support from the EU. Although the measures adopted were highly technical and significantly improved the functioning of the CMO within the Common Agricultural Policy, but sectors still remain to be reformed in the light of the new guidelines of the Common Agricultural Policy. The decrease in the direct support given to the European farmers in this context is the central result of the new CAP European philosophy. Correcting the market's imbalances becomes the central objective of the new regulations on the organization of the common market. The proximity to market is thus a functional solution in correcting the budgetary support allocated the Community agricultural sector.

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