



Analysis of the Mechanism of the Common Organization of the Markets for Agricultural Products in the European Union

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Abstract: *The Common Organization of the Market for Agricultural Products in the European Union is part of the common agricultural policy, which ensures both stable and predictable markets and resilient purchase prices, which in turn safeguards farmers' stable earnings and provides constant supply of quality food to consumers.*

The aim of this study is to analyze the applicability and adaptability of the mechanism of the common organization of markets in the EU, including: its internal aspect, mainly related to interventions in the market for agricultural products, and its external aspect related to the trade with third countries, import and export licenses, refund of part of costs associated with exporting agricultural products produced in the Community, etc.

The Common Organization of Markets, as a basis for implementing the EU Common Agricultural Policy, operates within a financial framework periodically updated by the European Commission in order to adequately implement the principle of subsidiarity, allowing EU Member States to play a key role in terms of interventions in the agricultural sector.

1. INTRODUCTION

The Common Organization of the Market for Agricultural Products in the European Union is part of the common agricultural policy, which ensures both stable and predictable markets and resilient purchase prices, which in turn safeguards farmers' stable earnings and provides constant supply of quality food to consumers. The measures relating to the support of agricultural markets are funded by the European Agricultural Guidance and Guarantee Fund. Some of the measures to support the markets are horizontal and apply to all sectors of agriculture, others apply only to one or more agricultural products (Ministry of Agriculture, R. Bulgaria, 2021). The Common Organization of Markets aims to achieve the objectives of the Common Agricultural Policy (CAP) of the European Union - Art. 40 of the Treaty on the Functioning of the European Union (TFEU), and in particular - to stabilize the markets for agricultural products, to ensure a fair standard of living for farmers and increase productivity in the agricultural sector.

The foundation of the EU's Common Agricultural Policy is based on two main components, namely:

- common organization of agricultural markets, and in particular of the measures relating to the EU's foreign trade in agricultural products;
- socio-structural measures applied in combination with other Community policies, including socio-economic and regional policy, climate and environmental policy, etc.

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2. SCOPE, PRINCIPLES AND MECHANISMS OF FUNCTIONING OF THE COMMON ORGANIZATION OF MARKETS IN THE EUROPEAN UNION

The Common Organization of Markets (CMO) includes a series of mechanisms regulating the production and trade of products in the EU, the composition of which is specified in Annex I to the Treaty on the Functioning of the EU (TFEU), incl. meat, fish, eggs, animal and dairy products, cereals, vegetable plants, tea, coffee, spices, oilseed crops, etc. These mechanisms offer guarantees that vary depending on the specific character of the types of agricultural production.

The market measures of the Common Market Organization (CMO) are part of the first pillar of the EU's Common Agricultural Policy. In other words, in its early stage CMO mainly relies on guaranteed prices which gradually go down, followed by initially complete and subsequently partial compensation through the granting of direct aid to farmers. Direct financial aid is realized through the application of various types of subsidies applying to both production and product commercialization, general mechanisms for stabilizing exports and imports, storage systems as part of intervention measures, etc.

The rules of the Common Organization of Markets are extremely complex and include:

- a. internal aspect - market interventions, rules on the admission to the market of producer organizations, and
- b. external aspect – regarding the trade with third countries, import and export licenses, import duties, tariff quota administration, export refunds, etc.

The Common Organization of Markets, as a main part of the EU's Common Agricultural Policy, is based on the following principles (Turlakova, 2013, p.21):

- common prices and market unity;
- agricultural protectionism within the Community (Community preference);
- financial solidarity of the Member States through applying the market intervention mechanism.

Market unity means that agricultural products, like all other goods, can circulate freely without any restrictions on the EU's internal market. Common prices are not market prices, they are not formed freely under the influence of market factors, but are rather “institutional” prices, which, after their initial fixing, are established by the EU Council on an annual basis.

Community preferences are, in essence, linked to the importance of the Community's foreign trade in agricultural goods. The principle of Community preference means that Community's production is always protected from competitive imports from third countries and international price fluctuations, and is preferable to foreign production.

The principle of “financial solidarity” means that all agricultural costs are borne by the EU budget, i.e. all Member States jointly participate in the financing of the Common Agricultural Policy. This is done through a special fund - European Agricultural Guidance and Guarantee Fund (Turlakova, 2013, p.22).

Following a series of reforms going along with the development of the EU's Common Agricultural Policy, in 2003 it was decided to proceed to a revision of the sector's financial support mechanism with the result being that greater portion of the direct aid is gradually “decoupled”

from volumes produced, moving on to the introduction of a single payment regime (Single Farm Support Scheme).

In other words, with the 2003 reform, the Member State Ministers of Agriculture deeply restructured the EU's Common Agricultural Policy (CAP), introducing new principles and mechanisms such as (Factsheets on the European Union, CAP Tools and Reforms Thereof, 2021):

- **decoupling aid from volumes produced**, to allow farms to better adapt to market conditions by minimizing production interruption and agricultural market distortion;
- **cross-compliance**, which links payments to the adherence to a set of environmental and public health criteria in response to the expectations of European citizens;
- **compatibility with WTO's rules**, in so far as decoupling of aid is ultimately intended to allow the single payment scheme to be included in the "Green Box"²;
- **re-distribution of payment entitlements** allocated to farms via two mechanisms: modulation- to transfer budgetary resources between the two pillars³ of the Common Agricultural Policy in order to strengthen rural development, and implementation of a regional decoupling model allowing harmonization of payments per hectare in accordance with adopted territorial criteria;
- **establishment of a Single Common Market Organization (SCMO)** in 2007, which systematizes the mechanisms for regulating the existing 21 common market organizations.

Until the entry into force of the Single Common Market Organization in 2007, the individual common market organizations relating to various agricultural products produced in the EU existed in parallel, each governed by a separate specific regulation of the Council of the Union. Thus, successive reforms are intended to modify both internal and external intervention instruments, which are currently considered „safety nets”, meaning that they only apply in the event of crises involving significant market disruption. As far as price support is concerned, only intervention prices⁴ are secured, and the scale of intervention is significantly limited.

3. FUNDING OF THE COMMON ORGANIZATION OF MARKETS IN THE EUROPEAN UNION

The Common Organization of Markets in the EU is funded by the European Agricultural Guidance and Guarantee Fund. The Fund is structured in two sections: the Guarantee Section and the Guidance Section. The Guarantee Section covers the vast majority of the Fund's resources (approximately 70%) and is a key tool for ensuring a stable income for farmers and guaranteeing the prices of agricultural products in the Community, whereas the funding out of the Guidance Section is aimed at implementing the structural policy in the agricultural sector, subsidizing and adapting production to the market, improving the quality of agricultural production, etc.

² The "Green Box" covers two types of aid. *The first* is focused on public services programmes (research, training, promotion, encouragement, infrastructure, domestic food assistance or state food reserves). *The second* is related to direct payments to producers, which are completely decoupled from production and are mainly related to guaranteed income and security programmes (natural disasters, state financial participation in crop insurance, etc.), for programmes introduced towards structural adaptation, as well as for programmes related to environmental protection.

³ The measures related to the functioning of the EU's Common Agricultural Policy (CAP) are structured in two complementary pillars: annual direct payments and market support to farmers (first pillar of CAP) and multi-annual rural development measures (second pillar of CAP).

⁴ Intervention prices - guaranteed prices at which an intervention agency designated by the Member States buys quantities produced and stores them.

The difference between international and higher purchase prices within the Union is refunded with financial resources provided by the Guarantee Section. Overstock of certain crops is bought to regulate the supply and demand thereof and maintain a high level of their domestic prices. Cash resources are also spent on export subsidies, etc.” (Turlakova, 2013, p.42).

In accordance with the principles of the Treaty on the Functioning of the EU, the financial assistance provided by the European Agricultural Guidance and Guarantee Fund is predominantly directed toward (Directorate for Programming of EU Funds at the Administration of the Council of Ministers of the Republic of Bulgaria, 2020):

- reinforcing and reorganizing agricultural and forestry structures, including those engaged in the marketing and processing of agricultural and forestry products;
- ensuring the adaptation of agricultural production and encouraging the development of additional activities for farmers;
- supporting the provision of a fair standard of living for those employed in the sector, improving the development of social networks within agricultural zones, protecting the environment and nature;
- providing technical assistance and information, as well as support towards conducting research activities and developing pilot projects to promote agricultural development at the Community level.

In 2019, the measures related to interventions in the agricultural markets within the Community approximately amounted to EUR 3.4 billion, or 5.5% of the total expenditure of the European Agricultural Guarantee Fund (EAGF). Table 1 provides data on the costs of interventions in EU agricultural markets, the costs of refunds on exports of agricultural products produced in the Community, as well as other market measures to support the EU’s agricultural sector.

Table 1. EAGF costs of interventions in agricultural markets
(in millions of EUR, current prices)

Types of EAGF costs	2012	2013	2014	2015	2016	2017	2018	2019
Storage	17,4	25,1	5,1	18,4	52,4	27,6	182,3	3,0
Export refunds	146,7	62,4	4,5	0,3	0,6	0,0	0,2	1,1
Other market measures	3 344,5	3 217,2	2 579,6	2 698,0	3 185,2	3 061,1	2 544,6	2 427,8
Total:	3 508,6	3 304,7	2 589,2	2 716,7	3 238,2	3 088,7	2 727,1	3 431,9

Source: Financial reports of the Commission to the European Parliament and the Council.
Factsheets on the European Union. First pillar of CAP (2021a)

The data contained in Table 1 show a reduction and decrease in the total intervention costs for agricultural products in the EU for the years 2014 and 2015, as since 2016 the dynamics of the costs of interventions in agriculture have been variable, reaching a high level again in 2019. The data also show a drastic reduction in the financial cost of the European Agricultural Fund, intended for refunds on exports of agricultural products originating from the Community, whose amount reached EUR 1.1 million in 2019, compared to EUR 179.4 million in 2011, EUR 62.4 million in 2013, etc. (see Table 1 and Figures 1, 2).

At this stage, unlike direct aid to support farmers and aid for rural development, market measures in the agricultural sector are not subject to funding from the EU’s agricultural budget. For the period 2014-2020, market policy funds in the agricultural sector, including the crisis reserve, approximately form 4% (EUR 17.5 billion) of the budget of EU’s Common Agricultural Policy.

In this regard, it must be clarified that a decision of the European Commission of 2018 introduces a reduction in support payments allocated under the first pillar, in the event that their amount exceeds EUR 60,000 per farm, as well as a mandatory limit as regards maximum support of up to EUR 100 000 per farm for activities under both the first and second pillar of the agricultural sector. Restructuring of payments is also envisaged as sectoral intervention programmes are shifted from the Common Organization of Agricultural Markets in the European Union to the national strategic plans for development of the agricultural sector.

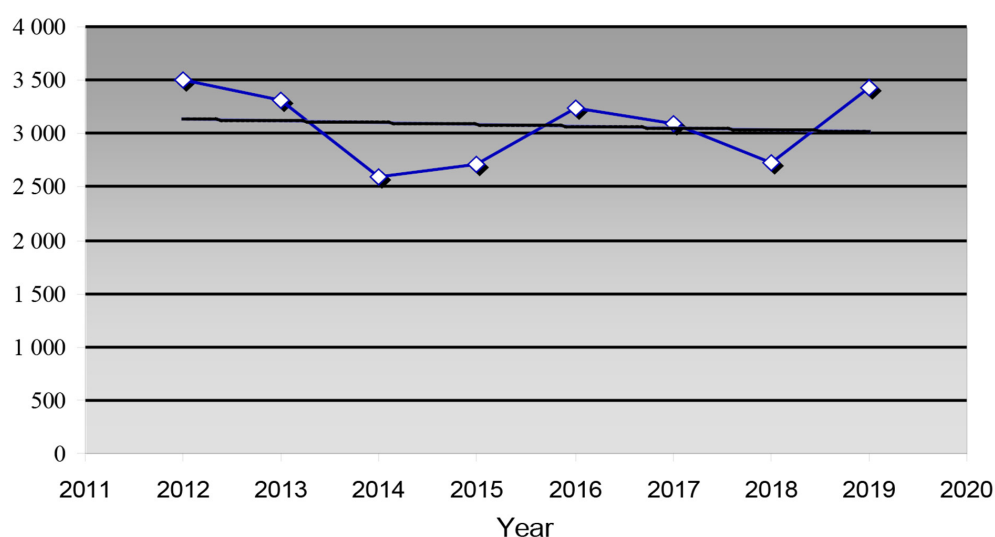


Figure 1. EAGF costs of interventions in EU agricultural markets
(in millions of EUR, current prices)

Source: Financial reports of the Commission to the European Parliament and the Council.
Factsheets on the European Union. First pillar of CAP (2021b)

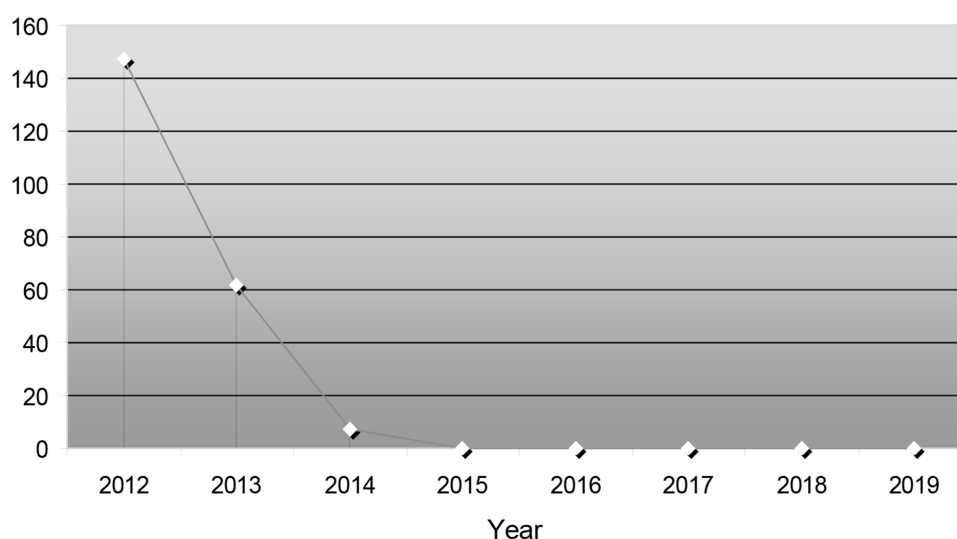


Figure 2. EAGF costs of refunds on exports of agricultural products produced
in the Community (in millions of EUR, current prices)

Source: Financial reports of the Commission to the European Parliament and the Council.
Factsheets on the European Union. First pillar of CAP (2021c)

4. CONCLUSION

In conclusion, it can be generalized that the Common Market Organization (CMO), as a basis for implementation of the EU's Common Agricultural Policy (CAP), is stipulated to operate in an updated multiannual financial framework adopted by the European Commission in May 2018.

At the heart of the newly adopted framework is the model for implementing the EU's Common Agricultural Policy, focused on the principle of subsidiarity, allowing EU Member States to play a much more important role in terms of interventions in the agricultural sector. In other words, in the future the Union should set the following key parameters: Common Agricultural Policy objectives, basic requirements, main types of interventions under the first pillar, as Member States should draw up multi-annual strategic plans to achieve the specific objectives and target levels agreed upon. Despite the mentioned changes, direct payments continue to be priority elements in the new EU Common Agricultural Policy (Factsheets on the European Union. Towards a Common Agricultural Policy After 2020, 2021a).

In the context of the above, the adopted new way of designing and managing the so-called "greening architecture" of the Common Agricultural Policy in the EU should also be taken into consideration, which is also entrusted to the relevant national authorities and institutions. In other words, the new "greening architecture" of the Community's Common Agricultural Policy will include three main directions: a new system of preconditions (mandatory but more resilient in terms of details), Eco-schemes for the environment and climate, to be funded by the European Agricultural Guarantee Fund (EAGF) and to replace existing greening payments, as well as agri-environmental measures (Factsheets on the European Union. Towards a Common Agricultural Policy After 2020, 2021b).

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