

Private crisis management has to be preventive

The new provisions of Article 222 of Reg. 1308/2013 establishing the common organisation of agricultural markets allow what can be called “private management of crises” in case of ‘serious disturbance of the market’.

In this case, the text is clear since it specifies:

- Who may intervene: producer organisations, associations of producer organisations and interbranch organisations.
- What may be done: i) market withdrawal or free distribution of their products; transformation and processing; ii) storage by private operators; iv) joint promotion measures; v) agreements on quality requirements; vi) joint purchasing of inputs necessary to combat the spread of pests and diseases in animals and plants in the Union or of inputs necessary to address the effects of natural disasters in the Union; vii) temporary planning of production taking into account the specific nature of the production cycle.

But the text introduces a series of requirements and formalities which make unviable a rapid and efficient use of this mechanism. In a context of tight budgetary constraints, the beauty of any private management would not only be that it does not generate public expenditure but also that it could be flexible enough to prevent the crisis.

The first requirement set out in the regulation is that the Commission “shall specify in implementing acts the substantive and geographic scope of this derogation and the period for which the derogation applies”. Therefore, before it can be activated, an implementing act has to be adopted by the European Commission.

The second requirement is that private management will apply “only if the Commission has already adopted one of the (crisis management) measures..., if products have been bought in under public intervention or if aid for private storage...has been granted”. In other words, the private management of crisis can only intervene once public management has been activated.

From an agricultural policy point of view, this is difficult to understand. As already mentioned, private crisis management makes sense as a preventive measure, as a “measure to calm markets”, as Paolo de Castro rightly proposed (2010). But the obstacles that have been put in place to any “preventive” market intervention are huge: European Commission internal procedures; budgetary constraints, if we are speaking about the “normal” agricultural budget; reservations from Member States with the largest volume of direct aids if we are speaking about the crisis reserve.

There is, obviously, a reason for such a prudent and restrictive approach. It follows the logic for private intervention, which represents an important exception to normal commercial conditions, restricted solely to cases in which it would be genuinely necessary. The problem it seeks to address is real, but the solution that has been found (certainly in the early hours of the morning after long nights of negotiations and short dreams) is inadequate and bureaucratic.

In my opinion it would be highly advisable, at the earliest opportunity, to replace the provisions with much clearer, simpler and operational ones, especially as the time of regulatory simplification seems to have arrived. For instance, private intervention could perhaps be activated automatically if market prices fell significantly (e.g. up to 120 % of

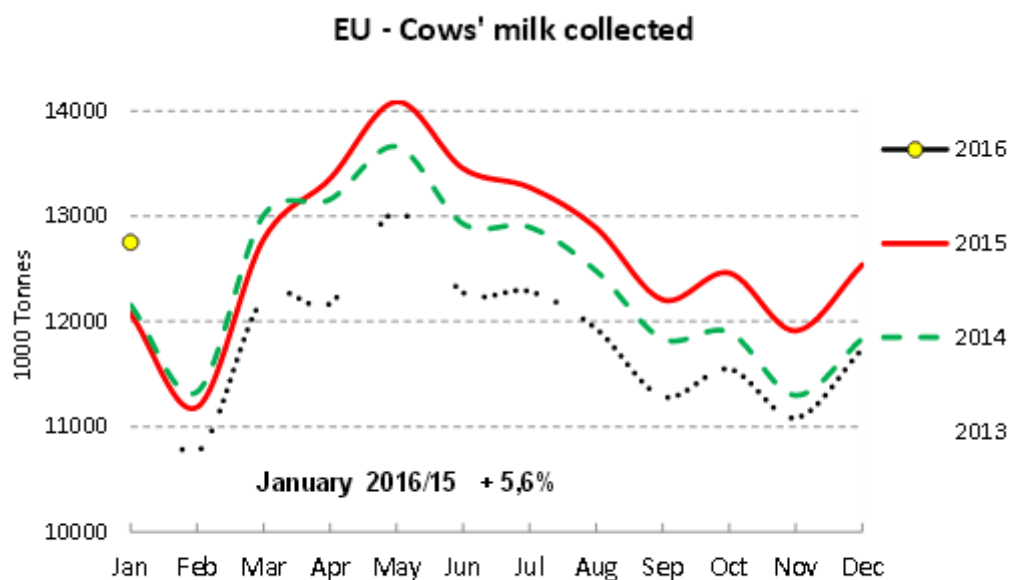
the level of the safety net) and cease if market prices recover and increase above a certain threshold (say, just 150 % of the reference level).

This would, at the same time, contribute to two of the core CAP objectives: ensure a fair standard of living for producers and reasonable prices for consumers. It would also remove some speculation from the markets and smooth the evolution of prices.

The march 2016 package measures as a perfect example

On 14 march 2016, the Commission announced the application of voluntary supply management (article 222 of the single CMO). In its press releaseⁱ, it explained that *»the Commission will activate, for a limited period of time, the possibility to enable producer organisations, interbranch organisations and cooperatives in the dairy sector to establish voluntary agreements on their production and supply. This is the so-called Article 222 from the Common Market Organisation (CMO), which is specific to the agricultural sector and can be applied in case of severe imbalance in the market. The Commission has concluded that the strict conditions for the application of this article to the dairy sector are fulfilled in the current circumstances. This is an exceptional measure, which must also safeguard the EU internal market and was included by the legislators in the 2013 CAP reform but never used before.«*

The European Milk market Observatory Dashboardⁱⁱ presented the evolution of the EU milk collected from January 2013 to January 2016.

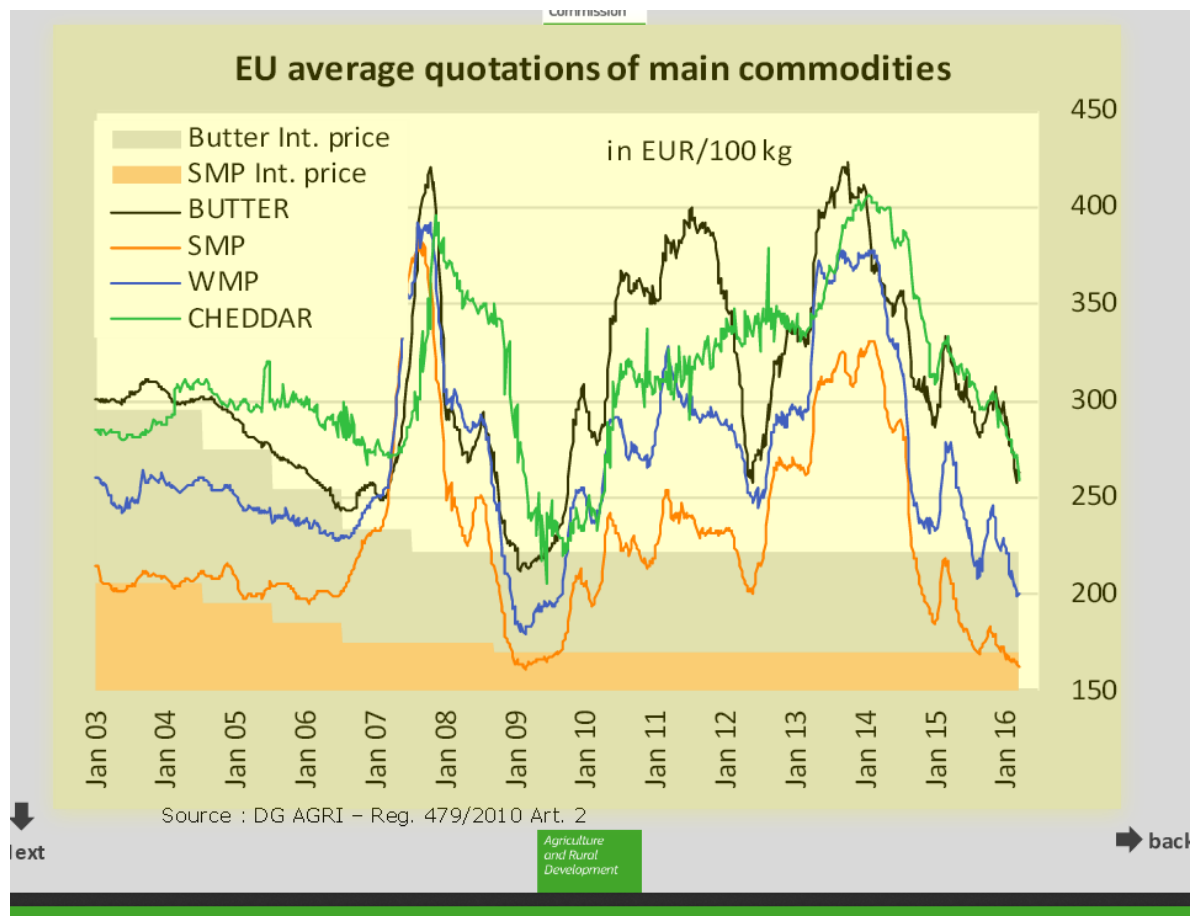


Source : Estat - Newcronos

Last update : January

In concrete terms, this means that EU milk collection increased by 5.6% in January 2016 (compared to January 2015), highest monthly increase compared to any month in 2015. This represents close to 700 000 t more milk in one month. Biggest delivery increases has been reported in % Luxembourg, Ireland, Belgium, Cyprus and the Nederland and in tonnes in the Nederland and Germany.

The EU and world markets are currently imbalanced as shown by the price evolution of the main commodities and the price declines have been observed since many months.



Private market management is confronted to a double challenge: firstly to involve enough participants in order to be effective and, secondly, the free riders who try to take advantage of the disciplines accepted and practised by the others (Olson and Cook, 2008).

The deeper the crisis is, the later the private arrangement is implemented, the more severe the agreed disciplines have to be in order to be effective and the more difficult it is to keep under control free riders.

This is why private market management makes only sense as a preventive action.

ⁱ http://europa.eu/rapid/press-release_IP-16-806_en.htm

ⁱⁱ http://ec.europa.eu/agriculture/milk-market-observatory/pdf/dashboard-dairy_en.pdf, consulted on 31/03/2016, 12:28