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COMMUNICATION FROM THE COMMISSION TO THE COUNCIL AND THE EUROPEAN PARLIAMENT

**Development and future of Community policy
in the fruit and vegetables sector**

0. Résumé and main conclusions

In the Commission's view the main objective of the reform must be to help and encourage producers in the Union to rise to the challenges of the coming years and develop and strengthen their assets, namely:

- the quality of their products, mostly intended for the fresh market and often highly perishable;
- their dynamism and ability to adapt to a changing market;
- the services which they can offer alongside their products. Environmental protection and the supply of a range of varied and healthy products must be included among the said services.

Altogether, despite some undeniable structural imbalances, the present market organization provides an operational framework which answers the requirements and has proved its worth. All the positive features - market orientation, decentralization of management and grouping of supply - should be reinforced. The Commission is therefore in favour of reform proposals which would consolidate the positive features of the present MO, while simplifying it and remedying any drift or weaknesses observed.

The Commission's aim is to redirect budgetary expenditure towards positive measures which contribute to a sound future and take into account environmental concerns.

It proposes a mix of various types of measure:

- better grouping of supplies to match increasingly concentrated distribution;
- a new way of managing short-term surpluses and gradual elimination of structural surpluses;
- a better balance between fresh produce and processed products;
- redefinition of standards;
- a specific approach to specific problems affecting certain products of "minor" importance in Community terms, but significant local or regional importance;
- more stringent controls.

The successful implementation of the Uruguay Round conclusions is an integral part of the new scenario for the fruit and vegetables sector. The Commission will take care to ensure that the Community preference authorized by the conclusions is not jeopardized by such implementation.

I. Present situation and foreseeable outlook

Pursuant to its commitments to the Parliament and Council, and specifically those made at the time of the farm price decisions for 1993/94, the Commission has made a detailed analysis of the present situation and foreseeable outlook of the Community's fruit and vegetables sector and the common organization of the market. In the light of its analysis it has identified certain approaches for the future.

In thinking about the broad policy lines for the future, the Commission took into account the joint Council conclusions adopted in September 1993 stating that "for those sectors in which the common market organization arrangements have not yet been amended, the Council and the Commission undertake to adopt such provisions as are necessary to maintain farm incomes and Community preference. The conditions and agricultural and financial principles which have been applied throughout the agricultural sector will be taken into account in those sectors. Account will also be taken of the context of the Uruguay Round." On that occasion the Commission underlined the necessity of complying, in all the sectors covered by the common agricultural policy, with the financial guidelines established for the coming years.

For the conversion of these commitments and statements into practical measures it is essential to take careful account of the specific characteristics of each sector and the economic challenges facing it.

The fruit and vegetables sector differs from the other major sectors subject to a common market regime because of the large number and diversity of products concerned, the perishable nature of most of them (need for rapid marketing, limited storage possibilities), the more market-oriented approach to production (less prominent role of intervention), and the fairly decentralized system of market regulation, largely in the hands of the producers' organizations.

Broadly speaking, despite some obvious structural surpluses, the system has proved its worth. All its positive features, which correspond well to the specificity of the sector (market orientation, decentralization, grouping of supplies), should be maintained, or even reinforced.

It is important to stress this as the risk of market strains looks like building up in the medium term for most fruits and vegetables, both at world level and in the Community, and as demand becomes increasingly concentrated.

The Commission is convinced that the fruit and vegetables sector in the Union is potentially well equipped to face these new challenges. The operational framework offered by the market regulations can and should be adapted to help and encourage producers to develop this potential to a maximum.

World trends

At world level there is a strong trend towards increased production; consumption is also increasing, but at a slower pace. Although a number of developing countries seem to present considerable potential for consumption growth, they often lack the necessary foreign exchange or prefer to develop domestic production. So there is a mounting risk of surpluses at world level, more in the case of fruit than of vegetables, with the result that the few large solvent markets will come in for increasing attention from all the exporting countries.

This is particularly true for the European market, for the following reasons:

- purchasing power is high;
- prices are relatively attractive;
- imports of fruit and vegetables are rising.

The European Union is a player of first order on the world market.

In fact, with imports of approximately 1 950 million ECU, it is by far the largest importer in the world. With a trade deficit in fruit and vegetables of about 1 280 million ECU, it also is the largest "net importer". Its degree of self-sufficiency in fresh products is less than 40% (all figures: 1990-92 average), and the fact that Community output is primarily this in spite of the fresh market.

Modifications following the Uruguay Round

Currently, on import, products are subjected to "ad valorem" customs duties, for a limited number of products with a reference price system. The latter's aim is to prevent imported products being sold on the Community market below a certain price level. They are fixed each marketing year by the Commission with the particularity that they can never be lowered in agricultural ECUS. In practice, there has been near price stability since 1986. The mechanism consists of a monitoring of the market prices of the principal products imported, origin by origin.

The new system concluded in the GATT framework envisages the introduction of entry prices which will apply to all the products which currently have reference prices except lettuce, endive-chicory and aubergine. The levels of the entry prices were calculated from the reference prices, without modifying the total level of protection.

The Commission will soon present a communication on the implementation of the GATT agreement for all agricultural sectors, and therefore also for fruit and vegetables. However, the principal problem raised by the GATT agreement for the latter remains that of control of the entry prices.

The Community will have therefore to provide itself with the instruments to ensure the correct operation of the entry price system. They will have to be in conformity with the rules of GATT and to enable the Community to enforce the elements of its offer.

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Following the Gatt agreement competition will become more acute, both on the Community market and the newly opened markets. Community producers have undeniable advantages on their side. The quality of their products, their adaptability to a constantly changing market and the services that can accompany their products all represent key assets to be exploited.

In a more open world, one of the main challenges facing Community producers will be the need to be more competitive. The Commission hopes that the guidelines set out in this discussion paper for the adjustment of the market regime will help and encourage Community producers to respond to the challenges before them.

Community trends

At Community level, the trend of production of most fruit and vegetables, mainly intended for the fresh market, is sharply upward. This seems to be due to increased yields rather than to an increase in areas planted. Consumption is also increasing, but more in favour of certain processed products (frozen vegetables, fruit juices) and "exotic" species (especially fruit). In contrast, for many traditional types of fruit and vegetables (and recently for the kiwi), the trend of consumption is only slightly upward, sometimes even stable or downward (pears), and there are risks of saturation. For some products, structural surpluses already exist.

The greater market dependence of fruit and vegetable growers will influence trends in the future as it did in the past: if a market is glutted the pressure on prices gradually induces the necessary adjustments. It is not sufficient simply to extrapolate the trends in order to arrive at a forecast for the future. None the less, trend analysis can give an idea of where and when adjustment problems may arise. Such an analysis has been attempted by the Commission. The main findings are set out in Annex 1. The conclusion must be that greater strains will be inevitable in the years to come, making it all the more essential for the market organization mechanisms to encourage rapid and efficient adjustment of the sector to the new conditions.

Present situation in the Union

Fruit and vegetables occupy (average for 1990-92) 4.3% of the Community's utilized agricultural area (UAA) and represent 16% of its total final agricultural production (FAP). The relative importance of the sector for the agricultural economy has tended to increase over the last ten years. It is particularly important in Spain (27% of national FAP), Italy (27%), Greece (23%), Portugal (18%) and Belgium (17%), but also in the Netherlands (13%), France (12%) and the United Kingdom (11%).

Another specific feature of the fruit and vegetables sector, as compared with other arable farming, is its high labour intensity and consequent importance for rural employment in certain regions. There are 1.8 million holdings of an average size of 1.3 ha producing fresh fruit and vegetables in the Community. Commercial holdings specializing in vegetable production number about 100 000, with an average area of 4.2 ha; the corresponding figures for specialist fruit production are 350 000 holdings and 7.9 ha.

As a general rule, the income of specialist vegetable holdings is substantially higher than the overall average income and that of specialist fruit-growing holdings. For the latter, the situation is more complex: in the north of the Union the income of fruit-growing holdings is higher than that of average holdings, but in the south it is lower, especially in Spain, Greece and Portugal. The relative importance of the south in overall fruit production means that its unfavourable income situation is reflected in the average for the Union as a whole.

Both fruit and vegetables generate high value added per hectare, much higher than the average farm. But the average area of fruit and vegetable holdings is distinctly smaller and labour requirements much greater. These two features largely explain why the holdings in question show a less good result for income per work unit. Specialist vegetable growers nevertheless show distinctly better figures, whereas the situation of fruit growers is less favourable.

The most important fruit and vegetable growing regions, where the value of fruit and vegetable production represents more than 2.5% of the Community total and more than 25% of the value of total agricultural production in the region, are as follows: Kentriki Ellada (2.6% and 29%), Comunidad Valenciana (4.6% and 67%), Andalusia (4.6% and 30.2%), Murcia (2.5% and 64%), Provence-Alpes-Côte d'Azur (2.9% and 46%), Emilia-Romagna (4.3% and 27%), Lazio (2.5% and 37%), Campania (3.9% and 43%), Apulia (4.3% and 42%) and Sicily (5.9% and 54%).

The Union is by far the world's largest importer. Its self-sufficiency rate is less than 40%. It imports mainly fruit, fresh and, above all, processed (citrus juices and to a lesser extent apple juice). The main fresh vegetable is the tomato. The other salient feature of the trade picture is the relative importance of intra-Community trade, which exceeds 70% of the volume of fresh products traded between Member States. The principal dispatching countries are Spain and Italy, whereas Germany is by far the main receiver.

Relocation of production

Given the prevailing risk of over-production, some producers' organizations are complaining about the problem of production relocation which the sector will have to face, particularly, they claim, as a result of the reform of the CAP. However, as far as the 1992 reform is concerned, the effects are only just beginning to be felt. Apart from a few cases, which so far remain sporadic, it is therefore too soon to draw conclusions at field level. However, the problem should be given some thought, even if only on a theoretical or even speculative level.

Although some major production zones, especially for fruit, have emerged in the course of time, the geographical distribution of fruit and vegetable production has never been fixed. The development of transport infrastructure and technical progress in methods of production, packaging, storage and transport have led to the emergence of new producers and new regions of production, some of them far more competitive than the old ones. The possible relocations that take place as a result are therefore merely a reflection of the dynamism of the sector, and the "traditional" producers of today are in many cases the "newcomers" of yesterday.

The relative profitability of a form of production in a given location depends on many factors, and it is often difficult or impossible to isolate the impact of any one of them. Nonetheless, the level and security of prices obtainable for alternative crops undoubtedly constitute one such factor. For instance, among cereal growers, since the second half of the 80s, the steady decline of cereal prices has produced increasing interest in diversification.

Altogether, the area planted to cereals has contracted in the course of the last ten years (start of the 80s to start of the 90s) by some 2.5 million hectares, but the contraction seems to have been offset almost entirely by an increase in the hectareage sown to oilseeds or committed to (voluntary) set-aside after 1989. In fact, the total area under arable crops (and voluntary set-aside) even increased over the period in question. In contrast, the area planted to fruit and vegetables has tended to decline. According to the latest available information, the decline was particularly marked in the 1993/94 crop year, whereas the cereals hectareage, including set-aside, tended to increase in the first year of the implementation of the 1992 reform.

It is therefore impossible to identify, at this global level, any significant switchover from arable crops to fruit and vegetables. The possibility that some cereal growers have moved into fruit and vegetables cannot be ruled out, and some studies bear this out, but the movement is marginal at present and there can be no certainty that the drop in the actual price of cereals was the determining factor. In addition, there are many examples of movements in the other direction, i.e. producers of fruit and vegetables changing to arable crops.

In conclusion, there is no obvious and general phenomenon of relocation clearly attributable to CAP reform. But this does not rule out a possible risk for the future, so a close watch must be kept on the trend.

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II. The weaknesses of the MO and the challenges before it

Close analysis of the MO mechanisms reveals a certain number of weaknesses, reflected particularly in:

- the unsatisfactory operation of certain producers' organizations;
- the importance of subsidized withdrawals which have become of a structured nature for certain crops and certain regions;
- occasional criticisms of the Community's quality standards;
- major shortcomings in statistics.

Producers' organizations

The producers' organizations are a cornerstone of the MO, responsible for the decentralized application of its mechanisms. Except in cases of "serious crisis", hitherto infrequent, they bear sole responsibility for subsidized withdrawals in accordance with Community rules. Some of them on their own initiative also withdraw products not qualifying for Community support.

But the role of producers' organizations should extend beyond decentralized management of withdrawals. Given the increasing concentration of demand (centralized purchasing and large-scale distribution), the grouping of supply through producers' organizations appears an economic necessity if the position of producers on the market is to be strengthened.

The present MO has included measures to encourage producers' organizations from the outset. This policy has had divergent results. Nowadays there are many regions where real successes have been achieved, with organizations marketing their members' products efficiently and consolidating their position on the market.

On the other hand, there are still:

- producers' organizations either without great commercial ambitions which only justify their existence by the withdrawals they manage or the structural assistance they receive, or which have objective difficulties in performing their commercial role, and
- regions where producers' organizations cover only a minority of producers while other commercial operators fulfil their role in a way deemed fairly satisfactory by a large number of local producers.

In the Commission's view it will also be necessary in the future to concentrate supply. This must be achieved on a voluntary basis, on the strength of the special services which producers' organizations can offer their members for efficient marketing and not because they enjoy a monopoly for withdrawals.

Subsidized withdrawals

The system of subsidized withdrawals was devised to cope with short-term surpluses of fresh and perishable produce due to exceptional weather.

In the last five years (1989 to 1993), budget expenditure on withdrawals amounted to an annual average of ECU 310 million. Over 90% was spent on fruit, and almost entirely on peaches, nectarines, apples and citrus fruits. As regards vegetables, the system was applied in practice only to summer tomatoes and cauliflower, plus some small quantities of aubergines.

Withdrawals are rising and this trend should continue in terms of both quantities and expenditure, despite the system of intervention thresholds (stabilizers). Where thresholds are exceeded, there is provision for reductions in the institutional prices applicable the following year. In some cases the overrun must be established each marketing year (vegetables, peaches and citrus fruit) in others as an average over several years (apples). The price reduction may never exceed 20%. This cut-off point has been reached in practice by certain products. If the penalty had been calculated without regard for the cut-off point in 1992/93 (applicable in 1993/94), for example, it would have been 25% for peaches and 95% for nectarines.

In some cases, where production costs are low, withdrawal seems to have gradually become an outlet in itself. Some producers seem to be caught in a vicious circle: producing for withdrawal, they try to keep upkeep costs to a minimum, favouring quantity to the detriment of quality; their produce falls increasingly short of market requirements and in the end is only good for withdrawal. In the case of citrus fruit, more particularly oranges, the role of withdrawal has been taken over partly by processing. This too is a subsidized outlet exploited systematically for fruit originally intended for the fresh market but which has gradually ceased to target the consumer.

Such vicious circles must be broken, in the interests of the industry itself. The withdrawal system, and in some cases the system of aid for processing, should be looked into so as to remove the possibility of them being exploited systematically as a subsidized outlet and so that the producers themselves are made more responsible and encouraged to produce for the market.

Withdrawals are not easily understood by the public. They should be strictly limited to short term surpluses and, as far as possible, the products withdrawn should be used for humanitarian purposes. Certain quantities of fruit and vegetables already find such destinations within the framework, for example, of the free distribution of agricultural products to the most deprived.

Moreover, one cannot exclude that the systematic use of the withdrawals as a subsidized outlet is connected with phenomena of fraud. Fraud, in the first place, with regard to quality, which, according to certain evidence, sometimes does not correspond to the requirements. Fraud, also with regard to the quantities: more products declared as withdrawn than in fact withdrawn.

Quality standards

The quality standards form a system of classification which helps to make the market more transparent by indicating certain characteristics of a product marketed. Standards reduce transaction costs and allow trade to develop without physical attention to the product.

What would happen if standards were no longer compulsory? Initially there would be little change. Big traders would continue to refer to the standards as they really need them for their transactions, but the system would gradually break down on local and regional markets, reducing market transparency.

Standardization has also been used as an instrument of market management. For example, it led to two measures which have been the subject of some debate:

- the ban in principle on the marketing of class III products on the fresh market, and
- the setting of the minimum size for Community apples of the large-fruit varieties in 1990 at 65mm instead of the original 60mm (used in international standards). The primary reason for this was the desire to limit supply on the market by eliminating small apples.

After diagnosing a serious crisis on the Community market for kiwi fruit, COPA-COGECA now requests the minimum size in the Community standard to be raised from 65 to 70g per fruit.

Using standards for market management has certain advantages:

- since it applies to products for market and for withdrawal, it limits the quantities available on the market without pushing up subsidized withdrawals. In situations of surplus (as is the case for many products) it contributes towards market balance, reduces budget expenditure and improves producer prices;
- in some cases (e.g. kiwi fruit) it is the only available market management instrument.

But these advantages are sometimes ill perceived by consumers, who are deprived of produce suitable for consumption and traditionally consumed in their region.

Significant shortcomings in statistics

In the course of its analysis, the Commission observed major shortcomings in the statistical data available. Some points should be stressed:

- basic surveys are conducted every five years to establish the structure of the fruit-growing industry, but the results are not available until several years later. Estimates of fruit-growing area based on interim survey results (changes in area planted) are not always consistent with the findings of the next basic survey;
- for the annual statistics of area and production, Member States do not record non-commercial orchards and row trees in an identical manner;
- for the same statistical variables (area, production, yield), the official sources occasionally give very different results;
- there are no reliable figures on consumption. Supply balances are not established by all Member States and the reliability of certain items is rather doubtful. Estimates from consumer surveys are not systematically made available to the Commission and do not permit satisfactory monitoring of the trend of consumption;
- some of the problems mentioned above are due to the fact that Member States are not legally bound to provide the Commission with annual information on area, production and supply balances;
- differences in intra-Community trade estimates based on consignment and delivery figures are sometimes significant, even as high as 50% in certain cases;
- for many products, especially processed, the only available data are provided by industry.

III. What approaches for the future?

The purpose of this communication is not to make detailed proposals for reform. As in the case of the CAP reform in 1991⁽¹⁾ and the wine sector reform in 1993⁽²⁾, the Commission's wish is to suggest certain approaches for all the parties to think about.

This corresponds to the recommendations of the European Council in Edinburgh in December 1992 about the transparency of Community decisions, involving the broadest possible consultation.

In the Commission's view the main objective of the reform must be to help and encourage producers in the Union to rise to the challenges of the coming years and develop and strengthen their assets, namely:

- the quality of their products, mostly intended for the fresh market and often highly perishable;
- their dynamism and ability to adapt to a changing market;
- the services which they can offer alongside their products. Environmental protection and the supply of a range of varied and healthy products must be included among the said services.

Altogether, despite some isolated but significant imbalances, the present market organization provides an operational framework which answers the requirements and has proved its worth. All the positive features - market orientation, decentralization of management and grouping of supply - should be reinforced. The Commission is therefore in favour of reform proposals which would consolidate the positive features of the present MO, while simplifying it and remedying any drift or weaknesses observed.

On the other hand, the introduction of production quotas and a "right of production", as recommended in some quarters, would undermine the dynamism required to keep pace with market change, particularly at time when foreign competition is gathering strength. It would also require a system of continuous monitoring and data gathering.

The same problem would arise if a system of aid per hectare were to be introduced. There is no register of orchards, no land register and no sufficiently reliable background data for setting up such a system. And the first efforts to set up a citrus fruit register have confirmed the problems. Many years of work and heavy expenditure is needed in order to develop an efficient instrument of management. Past experience with the vineyard register also confirms the problems. Consequently, the Commission advises against such a policy. It is more in favour of adapting the present framework.

(1) COM(91) 100, 1.2.1991

(2) COM(93) 380, 22.7.1993

[REDACTED]

The Commission's aim is to redirect budgetary expenditure towards positive measures which contribute to a sound future and take into account environmental concerns.

It proposes a mix of various types of measure:

- better grouping of supplies to match increasingly concentrated distribution;
- a new way of managing short-term surpluses and gradual elimination of structural surpluses;
- a better balance between fresh produce and processed products;
- redefinition of standards;
- a specific approach to specific problems affecting certain products of "minor" importance in Community terms, but significant local or regional importance;
- more stringent controls.

The successful implementation of the Uruguay Round conclusions is an integral part of the new scenario for the fruit and vegetables sector. The Commission will take care to ensure that the Community preference authorized by the conclusions is not jeopardized by such implementation. Work is already in hand on this aspect and the Commission will submit a framework proposal to the Council and Parliament, deciding shortly on the concrete measures to be taken.

Parallel to the implementation of the Uruguay Round conclusions, and more generally to ensure the regular operation of the market, the Commission intends to open consultations with our main partners in order to prevent any serious market disturbances having adverse repercussions on suppliers, whether in the Community or in third countries.

With regard to the opening of new markets, the Commission will take strict care to ensure that the Uruguay Round conclusions are implemented fully by the Union's GATT partners, especially the question of market access. In the context of the reform, it will encourage fruit and vegetable producers to look into these new markets and will help them promote Community products to potential new consumers.

1. Better organization of Community supply.

The organization of supply is vital for the competitiveness of Community producers for the following reasons:

- the ever-increasing importance of the major retail chains, which in some Member States account for more than 60% of sales of fruit and vegetables to households. In general, central buyers:
 - . have considerable room to negotiate price reductions;
 - . seek to obtain large quantities of standardized, uniform quality
 - . operate on a just-in-time basis, transferring a good share of the stock management problems to producers' organizations and local wholesalers;
- constantly changing demand. Producers must remain alert to consumers' desiderata and be able to adapt to market signals;
- the growing importance of the intrinsic quality of products in consumers' eyes. The development of integrated crop protection and compliance with changing rules on residues, especially pesticide and nitrate residues, requires organizational efforts on the part of producers;
- to integrate environmental concerns in farming practices Community wide and the need to develop, in particular, integrated crop protection methods;
- the reduction of costs (production, marketing) also requires efforts and economies of scale.

The producers' organizations already represent one of the cornerstones of the present MO. In the Commission's view they should be encouraged to play a more active role as commercial operators, provided that they can be credible in that role. The following steps should be envisaged:

- applying more stringent Community criteria for the recognition of producers' organizations by Member States.

Recognition would be reserved for groups of producers which achieve a minimum turnover in sales of fruit and vegetables and effectively market a high percentage (80%) of the marketable production of their members. They must be of a minimum economic size which justifies the existence of a marketing department;

- setting up a part-financing system to enable producers' organizations recognized on the basis of the new criteria to maintain "operating funds", on condition that the beneficiary organizations:
 - . set up the funds on the basis of the effective contributions of members and the quantities effectively marketed;
 - . undertake to promote among their members the use of integrated crop protection methods or other environment-friendly techniques;
 - . ensure that their members comply with quality standards and plant health regulations;
 - . agree to national and Community audits to ensure correct administration of public moneys.

[REDACTED]

The public contribution to such operating funds would be provided jointly from the Community budget and national and/or regional budgets, with a greater contribution from the Community in the Objective 1 regions. This would place responsibility on all the public administrations concerned to ensure correct use. The criterion would be "one ecu of public support for each ecu of private funding". The Community contribution would be increased if the producers' organization agreed to cooperate with similar organizations in other Member States in order to expand its range of products and/or extend its delivery periods.

In view of the specific problems of certain regions, where producer organisations do not hardly exist, an adjustment of this criterion of "one ecu of public support for each ecu of private funding", will be envisaged for a limited period.

The operating fund could be used inter alia for the following:

- improving product quality;
- promoting and encouraging producers to use integrated crop protection techniques, and any other environment-friendly techniques, including recycling of used plastics and packings. The Member States will offer the framework within which the standards to be applied will be elaborated.
- improving the market image of products and, in particular, setting up or expanding a marketing department;
- promoting the products on other markets.

The public contribution to the operating fund would be calculated on the basis of the effective turnover of the group, obtained on the fruit and vegetables market, but degressive in function of its size. The basis of calculation is therefore not limited to products currently eligible for subsidized withdrawal, but includes all the range and diversity of Community fruit and vegetable production.

Some of the resources from the operating funds could be used to:

- increase by a limited percentage the withdrawal indemnity payable in respect of products currently subject to a withdrawal price (see point 2 below);
- pay compensation to members for products withdrawn from the market not subject to a withdrawal price;
- increase by a limited percentage the prices obtained by producers for products sold for processing.

The necessary steps will be taken to prevent that these measures will lead to massive withdrawals for certain products. Moreover, if a product is withdrawn, this must be compatible with the environment.

[REDACTED]

As in the case of the wine sector reform⁽³⁾ the Commission holds the view, in line with its Communication on inter-branch organizations in 1990⁽⁴⁾, that a light Community framework for inter-branch arrangements in the fruit and vegetables sector should be offered to Member States so wishing.

2. A new approach to managing short-term surpluses

The purpose of the reform is not just to ensure that the producers take more responsibility for market management, but also to reduce the attractiveness of the withdrawal option and the tendency of producers' organizations to concentrate on it.

Short-term surpluses are an inherent feature of fruit and vegetable production. The producers' organizations would be free to decide which products and quantities should be withdrawn as and when they saw fit. For products at present eligible for Community support on withdrawal (withdrawal price), the producer would receive compensation in the form of a Community withdrawal indemnity set at a clearly unprofitable level, i.e. well below the present withdrawal price in most cases. Arrangements for processed fruit and vegetables would be adapted accordingly.

The producers' organizations could top up the withdrawal indemnities to which their members were entitled. For this purpose they could use a limited and decreasing proportion of the operating fund (referred to in point 1 above). They could also use this proportion of the operating fund to compensate their members for the withdrawal of products that are not at present covered by the system of withdrawal prices.

When withdrawn products were destroyed, payment of both the Community withdrawal indemnity and any topping up or compensation from the operating fund would be conditional upon the definition at forehand of and the use of environment-friendly techniques.

This more stringent approach to withdrawal will mean that the system of intervention thresholds for fresh products can be discontinued at the end of the transitional period.

Producers who are not members of the grouping could also withdraw products eligible for the Community indemnity payable through the producers' organizations. They would receive the indemnity after deduction of a flat-rate amount to take account of the management costs incurred by the producers' organization.

3. A balanced relation between fresh and processed products

Wide variety is not only a feature of fresh products; it is also reflected in the considerable complexity and diversity of relations between products consumed fresh and those consumed after processing. In some cases, the approach suggested in this communication for the fresh product will also affect the processed product; in other cases, the new approach for the fresh product will have little or no impact on the processed product.

(3) COM(93) 380, 22.7.1993

(4) SEC(90) 562, 26.10.1990

[REDACTED]

Five broad categories can be distinguished in this respect:

1. Products eligible for withdrawal but not for processing aid: these include cauliflower and apples, which are subject to a system of intervention thresholds.
2. Products eligible for withdrawal, but for neither processing aid nor thresholds. They include apricots and table grapes.

Setting withdrawal indemnities at non-profitable levels (lower than at present) and allowing for the possibility of topping up prices obtained for products sold for processing should be conducive to a more stable and fluid relation between production and processing.

3. Citrus fruits, for which the processing aid system is included in the fresh products market organization. The threshold relates to all subsidized disposal, whether the subsidy takes the form of withdrawal or processing aid.
4. Products intended for either the fresh or the processing market, where the two markets are usually separate. These products are eligible both for withdrawal and for processing aid under the MO for processed products; consequently, there are two stabilizers, one for fresh products and the other for processed products. The stabilizer for processed tomatoes takes the form of industry quotas; those for peaches and pears take the form of intervention thresholds.

For both groups, setting withdrawal indemnities at lower levels will also bring down minimum prices and processing aids; the money thus made available will fuel the operating funds of the producers' organizations. As mentioned in point III.1, the operating funds can be used in part to increase prices obtained on sales for processing. With this approach, part of the public support now granted to the processing industries (with indirect benefits to producers) will be transformed into direct support to producers.

5. Products that are eligible only for processing aid under the MO for processed products subject to a guarantee threshold. They include, for example, prunes, figs and dried grapes (although for dried grapes the present system will be replaced after the current marketing year by a maximum guaranteed area).

These products will not be directly affected by the reform of the MO for fresh products.

This said, the Commission will review all the various processed products, and will propose any adjustments needed to ensure the smooth functioning of the entire fruit and vegetables sector following reform. It will be guided by the following principles.

- Policy on processed fruit and vegetables should be consistent with policy on fresh products; this means continuing to foster competition and to seek genuine market outlets.

- The Community framework for the market in processed fruit and vegetables must leave the industries and producers concerned sufficient leeway to adapt to market needs, to open promising new markets and to exploit their relative competitiveness. Any rigid system, such as production or processing quotas, might hamper the required adjustments and eventually create an increasingly serious handicap for the processing industries in a constantly developing market.
- In future the Community processing industry must not be seen as an outlet for market surpluses of fresh products. Wherever possible, products intended for the fresh market should be differentiated from products for processing. Multiannual contracts between the industry and producers may constitute an approach worth exploring.

4. Redefining the role of standardization

Standardization has a major role to play as a system of classification contributing to market transparency. This is recognized both in the Community and internationally. Without Community standards, therefore, regions or Member States might be led to set up their own systems, which could lead to serious distortions.

For these reasons, the standards should be maintained and updated as a compulsory Community reference framework; most operators are in favour of this in the interests of minimum commercial transparency. This does not mean that operators may not supplement the framework by adding their own specifications.

From this point of view, all the present standards need to be reviewed, simplified, updated and developed, in close coordination with the standardization work going on at other international levels in which the Union is involved.

It is true that the standards have been frequently criticized for their complexity, and the role played by the Union in establishing commercial standards has been questioned. Advocates of subsidiarity often present the Commission as a body distant from the real world, seeking to impose over-detailed and unnecessary rules and regulations. Such criticism is offset by the requests sent to the Commission for the standards to be updated and expanded. The Commission would therefore suggest that a debate could be opened on the matter.

However, there is no doubt that the Commission has a duty to consider the health of consumers in the framework of the single market. On the question of wholesomeness, maximum residue limits for pesticides and crop protection products have been set for all fruit and vegetables in Directive 90/642/EEC. Limits on nitrates (important for vegetables) and aflatoxins (important for vegetables and nuts) are laid down in proposals for directives soon to be sent to the Council. In addition, a proposal for a directive is being drawn up for the horizontal harmonization of the other aspects of the wholesomeness of products of plant origin.

It is still difficult to define objective, measurable criteria for organoleptic quality, which is so important to consumers.

5. A specific approach for specific problems

The Commission also thinks it is necessary to give some consideration to the future of such products as garlic, asparagus, mushrooms, soft fruits and other products where problems cannot always be overcome solely with the aid of the general MO instruments. Their economic importance is not decisive at Community or even at national level, but they may well be very important at regional or local level. In the face of strong international competition, the economic survival of these products might even come under threat, with all the resulting social consequences.

Establishing operating funds as suggested in this communication would be a major step towards providing producers' organizations with the means to deal with such problems. Other measures may also be necessary. Where appropriate, the Commission is prepared to study, in close cooperation with the regions, the Member States and the operators concerned, the specific situation of each sector so as to prepare any provisions that may be necessary, on the understanding that such provisions should comply with the constraints arising from the Uruguay Round and the Union's international commitments. This is already true, indeed, of products such as nuts and dried grapes.

6. Tighter controls

Frequent calls for tighter controls are made by all the European institutions: Parliament, the Council, the Court of Auditors, the Economic and Social Committee, and the Commission. The GATT agreements, and the Commission's proposed approach, can be effectively applied only if there are adequate control measures at both national and Union level.

In more general terms, as the proposed approach is geared to simplification of Community rules and increased responsibility for producers and their organizations, its adoption will involve the government departments concerned in more intensive control than at present.

Tighter controls should cover in particular the management of the operating funds of the producers' organizations, compliance with commercial and health quality standards, and the smooth working of the entry price arrangements. A small but efficient nucleus of Community inspectors will help to ensure, for Community and non-Community producers, consumers and operators alike, that the controls are applied in a uniform and non-discriminatory manner. This objective will also be furthered by closer contact between national and Community officials responsible for control, and joint training and information activities on a Community scale. This coordinated and cooperative approach is essential in view of the proliferation of bodies responsible for different aspects of control, the need to make the various actors more responsible for the sound management of the sector, and the Union's major international commitments.

7. A necessary transition

The Commission is aware of the need for a transition period and back-up measures once the aims and instruments have been defined.

The scaling-down of withdrawal prices to a non-remunerative level should be progressive, over a four-year period.

The Commission's proposed approach will involve problems of transition in certain Community regions, for certain producers and certain products, for the following reasons:

- (i) Producers' organizations are weak or even non-existent in certain regions of the Community.
- (ii) The reform should enhance the role of producers' organizations which contribute effectively to grouping Community supply; the criteria for the recognition of such organizations need to be strengthened.

But the application of more rigorous criteria, essential as it is, will raise the problem that many organizations do not (or not yet) fulfil them, and will therefore not be entitled to the Community contribution to the operating fund. For example, they may be too small in economic terms, or the proportion of the output of their members that is actually marketed may be too low.

- (iii) Withdrawal indemnities set at unprofitable levels are likely to cause problems in certain regions and groupings where withdrawals have become excessive.

To solve this type of problem, the Commission suggests introducing four-year adjustment programmes, financed by the Community:

- (a) to help producers' organizations expand, e.g. by grouping together or by expanding their membership, and to encourage the creation of producers' organizations where none exist;
- (b) to encourage producers who have traditionally been dependent on withdrawal to adjust themselves back to the market;
- (c) to facilitate conversion and/or grubbing up possibly in combination with reparacling to crop varieties more adapted to the market, or to assign land to other purposes such as afforestation and conservation.

If grubbing up is included, subject to certain limits, in adjustment programmes upon which the future of a producers' organization depends, it will have a better chance of success. But the Commission is not convinced that large-scale subsidized grubbing up is sufficient in itself to solve the problems of structural surpluses. At all events, to be effective, a grubbing-up scheme must be accompanied by rules on planting rights, with appropriate monitoring measures. But the difficulties caused by the lack of a proper land register and the dearth of statistics referred to earlier, should not be underestimated.

At the end of the transition period, the Commission will present a report on the realisation of the adjustment programmes.

IV. CONCLUSIONS

The Commission's analysis of Community policy on fruit and vegetables leads it to conclude that reform of the present mechanisms is needed to help and encourage Community producers to exploit all their assets and give a maximum boost to the sector's momentum. This is the best way forward to ensure a positive outlook for the future, especially for younger growers.

The Commission's aim is to redirect budgetary expenditure towards positive measures which contribute to a sound future and take into account environmental concerns.

It proposes a mix of various types of measure:

- better grouping of supplies to match increasingly concentrated distribution;
- a new way of managing short-term surpluses and gradual elimination of structural surpluses;
- a better balance between fresh produce and processed products;
- redefinition of standards;
- a specific approach to specific problems affecting certain products of "minor" importance in Community terms, but significant local or regional importance;
- more stringent controls.

The successful implementation of the Uruguay Round conclusions is an integral part of the new scenario for the fruit and vegetables sector. The Commission will take care to ensure that the Community preference authorized by the conclusions is not jeopardized by such implementation.

The Commission hopes that broad debate will be opened in the Union on the prospects sketched out in this paper. In due course, it will present detailed proposals, taking the opportunity to review all the rules and regulations, with a view to their updating.

Area and production of fruit and vegetables in the Union
average 1990-92 (x '000 t in %)

Area	Fruit Vegetables Total	million ha	% UAA
		3.64	4.3
		1.91	
		5.55	

FRUIT			VEGETABLES		
	x '000t	%		x '000t	%
Dessert apples	8143	25,9	Cauliflower	2197	4,7
Dessert pears	2474	7,9	White cabbage	1912	4,1
			Other cabbage	1517	3,2
Peaches	3089	9,8			
Apricots	569	1,8	Celery	534	1,1
Cherries	513	1,6	Leeks	731	1,6
Plums	889	2,8	Lettuce	2432	5,2
Nectarines	863	2,7	Witloof, Endive	599	1,3
			Spinach	423	0,9
Nuts	772	2,5	Asparagus	232	0,5
			Curled endive	667	1,4
Strawberries	648	2,1	Artichokes	1002	2,1
Kiwis	444	1,4	Tomatoes	13140	28,1
Berries, (excl. kiwi)	522	1,7	Cucumbers	1348	2,9
			Aubergines	561	1,2
Oranges	5550	17,7	Marrow	842	1,8
Mandarins	340	1,1	Sweet peppers	1473	3,2
Satsumas	427	1,4	Carrots	3030	6,5
Clementines	1277	4,1	Garlic	339	0,7
Lemons	1491	4,8	Onions	3070	6,6
			Peas	723	1,5
Table grapes	2221	7,1	French beans	1003	2,1
			Mushrooms	739	1,6
Other	1151	3,7	other	8194	17,5
TOTAAL	31383		TOTAL	46708	100,0

	FRUIT		VEGETABLES		TOTAL	
	x '000 t	% EUR 12	x '000 t	% EUR 12	x '000 t	% EUR 12
BELGIUM	412	1,3	1253	2,7	1665	2,1
DENMARK	72	0,2	261	0,6	333	0,4
GERMANY (*)	3017	9,6	2147	4,6	5164	6,6
GREECE	3454	11,0	4000	8,6	7454	9,5
SPAIN	8540	27,2	11048	23,7	19588	25,1
FRANCE	3405	10,8	5655	12,1	9060	11,6
IRELAND	17	0,1	233	0,5	250	0,3
ITALY	10567	33,7	12610	27,0	23177	29,7
LUXEMBOURG	8	0,03	2	0,00	10025	0,01
NETHERLANDS	539	1,7	3657	7,8	4196	5,4
PORTUGAL	859	2,7	2048	4,4	2907	3,7
UNITED KINGDOM	494	1,6	3793	8,1	4287	5,5
EUR 12	31383	100,0	46708	100,0	78091	100,0

(*) New Länder excluded for fruit, included for vegetables.

**Total expenditure of EAGGF Guarantee Section
(ECU billion)**

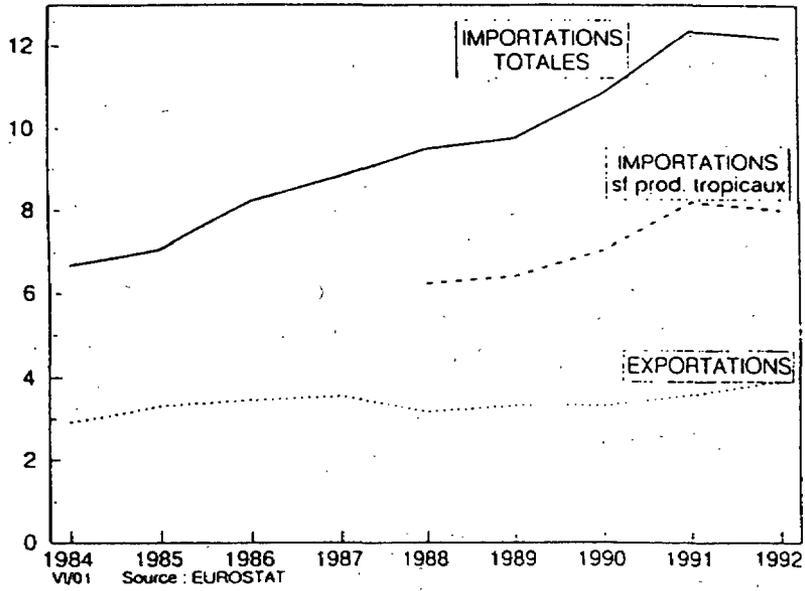
	Fruit/veg fresh	Fruit/veg processed	Fruit/veg total	EAGGF Guarantee	%
1988	283	427	710	27,687	2,6
1989	497	522	1,019	25,875	3,9
1990	670	583	1,253	26,475	4,7
1991	489	618	1,107	31,865	3,5
1992	608	654	1,262	32,114	3,9
1993	1,076	596	1,672	35,590	4,7

Main measures for fresh products (ECU billion)

	1988	1989	1990	1991	1992	1993
Refunds	49	63	67	77	92	156
With- drawals	169	284	304	187	188	597
Process- ing of citrus fruit	54	128	230	129	229	179
Nuts			34	35	46	81
Other	11	22	35	61	53	63
TOTAL	283	497	670	489	608	1076

**EVOLUTION DU COMMERCE EXTRA DE FRUITS ET LEGUMES
FRAIS ET TRANSFORMES EN VOLUME**

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ANNEX I

Production and consumption: first conclusions

Towards greater pressure

With a few exceptions, increased output has not so far led to structural surpluses. First of all, in most cases, the effects on market equilibrium of the increase in output have been attenuated, and sometimes offset, by a corresponding expansion in demand. Secondly, many types of fruit and vegetables are not entitled to specific internal support through intervention (withdrawal) or aid to processing. In these cases, output tends to adapt systematically to demand. The production of fruit and vegetables is far more market-driven than any other agricultural sector. This means that, for most products, output surpluses give less cause for concern than in other sectors.

However, the exceptions to this rule are significant, especially as most Community output is intended for the fresh market. Withdrawals are substantial and are even becoming systematic for certain varieties of apples and peaches. Citrus fruit withdrawals are still fairly limited, but increasing, and, because of the aid available, much of the fruit that cannot be disposed of on the fresh market is going for processing. Processing is also a subsidized fall-back outlet for peaches.

Withdrawal and subsidized processing are much less important in the vegetables sector. Exceptions are cauliflowers and, to a lesser extent, tomatoes; for the latter it has been necessary to introduce processing quotas. By contrast, withdrawal plays only a limited role for summer tomatoes.

The strong market dependence of fruit and vegetable growers will influence trends in the future as it did in the past: if a market is glutted the pressure on prices gradually induces the necessary adjustments. It is not sufficient simply to extrapolate the trends in order to arrive at a forecast for the future. None the less, trend analysis can give an idea of where and when adjustment problems may arise. Such an analysis has been attempted below, in table 1 for fruit and table 2 for vegetables.

[REDACTED]

In interpreting Table 1, it should be borne in mind that "uses" include fruit juice (converted into fresh fruit equivalent), largely produced from imported concentrate, since Community output is not competitive without massive aid. Juice consumption is a major component of citrus fruit consumption, estimated at some 50% in 1990/92 and 55% in 2000. The consumption of citrus fruit not including juice would be only 8.8 million tonnes in 2000 instead of 19.7 million tonnes. For table grapes, Table 1 does not take account of the impact of the wine sector reform now at the proposal stage. We estimate that prohibiting the vinification of table grapes would lead to a slight production surplus of around 200 000 tonnes.

In brief, it is clear from Tables 1 and 2 that markets in virtually all the Community's major fruit and vegetable products may well come under pressure.

**1. FORESEEABLE PRODUCTION AND CONSUMPTION
OF FRESH AND PROCESSED FRUIT ('000 t) (*)**

	PRODUCTION			USE			
	1990-92	2000	% diff	1990-92	2000	% diff	% p.a.
APPLES	8143	10000	22,8	8540	8820	3,3	
PEARS	2474	2450	-1,0	2751	2356	-14,4	
PEACHES (1)	3951	4555	15,3	3155	3600	14,1	
GRAPES	2221	2430	9,4	2305	2700	17,1	
CITRUS FRUIT	9177	10700	16,6	16920	19685	16,3	
ORANGES	5550	6219	12,1	12845	15060	17,2	
LEMONS	1490	1670	12,1	1445	1630	12,8	
OTHER CITRUS	2137	2811	31,5	2630	2995	13,9	
SUB-TOTAL	25966	30135	16,1	33671	37161	10,4	1,10
PER HEAD				97,5	104,1	6,7	0,73
OTHER FRUIT (2)	6279	7530	19,9	6303	6815	8,1	
TROPICAL FRUIT (3)				4037	5360	32,8	3,20
TOTAL	32245	37665	16,8	44011	49336	12,1	1,20
PER HEAD				127,5	138,2	8,4	0,90
TOTAL excl. juice and tropical fruit (4)				29274	30386	3,8	0,42
PER HEAD				84,8	85,1	0,4	0,04

NB: Figures for "use" also include the consumption of fruit juice based on imported concentrate and converted into equivalent fresh fruit.

* for net imports of apple juice (53 000 t), processed pears (40 000 t), and orange juice (550 000 t), coefficients of 8, 8.5 and 12.5 respectively were used to convert into equivalent fresh fruit, while EUROSTAT uses a factor of 1.6.

(1) Including nectarines

(2) Production estimated on the basis of the sub-total for fruit; identical calculation for consumption, but excluding juice

(3) On the basis of EU imports

(4) 1990-92 = total minus 2120 (apples), minus 8580 (citrus fruit), minus tropical fruit
2000 = ditto, but plus 27% for juice

**2. FORESEEABLE PRODUCTION AND CONSUMPTION
OF FRESH AND PROCESSED VEGETABLES**

	PRODUCTION ('000 t)			USE ('000 t and kg/head)			
	1990-92	2000	% diff	1990-92	2000	% diff	% p.a.
TOMATOES	13222	14050	6,3	13465	13925	3,4	0,37
CAULIFLOWER	2197	2500	13,8	2045	2285	11,7	1,24
LETTUCE	2432	2742	12,7	n.a.	n.a.		
CARROTS	3030	3630	19,8	n.a.	n.a.		
ONIONS	3070	3440	12,1	n.a.	n.a.		
SUB-TOTAL	23951	26362	10,1				
PER HEAD							
OTHER VEGETABLES	22757	25138	10,5				
TOTAL	46708	51500	10,3	45880	50300	9,6	1,03
PER HEAD				132,9	140,9	6,0	0,65
including fresh veg.				33880	36100		
PER HEAD				98,1	101,1	3,0	0,33
including fresh veg.				12000	14200		
PER HEAD				34,8	39,8	14,4	1,51

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