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DOCUMENT 1-271/83

REPORT

drawn up on behalf of the Committee on Budgetary Control

on the utilization of appropriations under the fruit  
and vegetable sector of the European Agricultural  
Guidance and Guarantee Fund

Rapporteur: Mr V. GABERT

PE 80.779/fin.

English Edition



By letter of 24 June 1982 the Bureau of the European Parliament authorized the Committee on Budgetary Control to draw up a report on expenditure under the fruit and vegetable sector of the EAGGF.

At its meeting of 2 November 1982 the committee confirmed the appointment of Mr GABERT as rapporteur.

The committee considered the draft report at its meetings of 2 November 1982 and 28/29 April 1983 and at this last meeting unanimously adopted paragraphs 1 to 6 of the motion for a resolution.

Present: Mr AIGNER, chairman; Mrs BOSERUP, vice-chairman; Mr GABERT, rapporteur; Mrs HERKLOTZ (deputizing for Mr WETTIG), Mr KELLETT-BOWMAN, Mr KEY, Mr MARCK and Mr SABY.

The committee adopted paragraphs 7 to 15 of the motion for a resolution by 6 votes to 0 with 2 abstentions.

Present: Mr AIGNER, chairman; Mrs BOSERUP and Mr PRICE, vice-chairmen; Mr GABERT, rapporteur; Mr KELLETT-BOWMAN, Mr KEY, Mr NOTENBOOM and Mr MARCK.

The opinion of the Committee on Agriculture is attached to this report.

The report was tabled on 2 May 1983.

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The Committee on Budgetary Control hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

on the utilization of appropriations under the fruit and vegetable sector of the European Agricultural Guidance and Guarantee Fund

The European Parliament,

- A. having regard to the rapid increase in expenditure in recent years in the fruit and vegetable sector of the EAGGF-Guarantee Section,
- B. concerned at the large amounts spent on the processing of certain varieties of fruit and vegetables and on withdrawals from the market,
- C. having regard to the need to act in good time to rectify undesirable developments in their early stages,
- D. having regard to
  - (a) the proposals from the Commission amending Regulation No. 1035/72 on the common organization of the market in fruit and vegetables (COM(81) 403 final) and amending this regulation as regards producers' organizations (COM(81) 403 final) and to
  - (b) Regulation No. 1204/82 laying down special measures for improving the production and marketing of Community citrus fruit and to Regulation No. 1738/82 as regards preventive withdrawal of apples and pears,
- E. having regard to the special report of the Court of Auditors (OJ No. C 258, 6.10.1980)
- F. having regard to the report of its Committee on Budgetary Control and the opinion of the Committee on Agriculture (Doc. 1-271/83),

General considerations

- 1. Notes that budgetary expenditure in the fruit and vegetable sector has increased six-fold since 1975;
- 2. Intends to ensure, through the instrument of parliamentary control of financial management and utilization of appropriations, that the interests of the European taxpayer do not become secondary to the interests of the producers and the trade;

### Withdrawals from the market

3. Notes that in the last three financial years, 1979, 1980 and 1981, 66 m, 103 m, and 111 m ECU respectively have been spent from the Community budget on withdrawals from the market; in the marketing year 1979/1980 withdrawals amounted to around 2.4% and in 1980/1981 2.0% of the total fruit and vegetable harvest equivalent to 0.98% of total expenditure under the Guarantee Section of the EAGGF. Despite the relatively low figure, this represents a temptation for certain elements to perpetrate frauds and irregularities damaging to the Community's reputation;
4. Regrets the fact that this leads to the destruction of fruit and vegetables and takes the view that this should be avoided as far as possible; calls upon the Commission to propose solutions to ensure that the quantities taken off the market are used as cost-effectively as possible, giving consideration to ways in which the Member States and the producers' organizations could assume greater responsibility for the risk connected with produce bought into intervention;
5. Welcomes the recent increase in the compensation for transport costs in the case of free distribution and requests the Commission and the Council, pending the adoption of appropriate provisions, to enact transitional arrangements containing further improvements especially with regard to the system of free distribution;
6. Requests the Commission and the Council, with regard to the incipient structural surpluses, to adopt provisions and measures which make intervention superfluous, and suggests in particular to the Commission that it examines the extent to which marketing can be orientated towards certain high-quality categories of goods and high-quality processed products so as to adapt production to consumers' needs and thereby save budgetary appropriations;

### Checks and irregularities

7. Is alarmed at the growing number of irregularities in this area in certain regions of the European Community and at the inadequacy of supervision, which put seriously at risk the proper implementation of Community provisions;

8. Calls on the Commission to ensure that the conditions governing withdrawals from the market actually obtain at the time of such withdrawals, that the stipulated means of disposal is respected and that irregularities are avoided at all costs;
9. Considers it essential that there be stricter control of the activities of producers' organizations and processing companies as well as unannounced spot-checks by Commission officials, especially to monitor the quantities and quality of produce for which intervention has been authorized by the national authorities;
10. Appeals to the Council to adopt as soon as possible the Commission's proposals as regards an increase in appropriations for the monitoring of the implementation of Community rules on agricultural products (COM(82) 188 final), which in themselves constitute no more than a minimum requirement;

Other necessary measures

11. Requests the Commission to review the cost-effectiveness of production aids for processed products, particularly tomato-based products, which subsidize up to 95% of the value of the products and which account annually for approximately one half to two thirds of the appropriations spent on the fruit and vegetable sector overall (1979: 285 m ECU, 1980: 491 m ECU and 1981: 418 m ECU);
12. Appeals to the Commission and the Member States to do all in their power so that the measures initiated some time ago to improve the production and marketing of citrus fruit might at last be put into effect and thereby prevent further wastage of Community funds through the intervention buying of fruit produced without heed to consumer requirements;
13. Is convinced, moreover, that a number of subsidy measures, apart from transferring capital to the individual Member States, have not had the desired effect and therefore should either be administered more effectively or reviewed (for instance the measures relating to the scope of the processing of tomatoes and citrus fruit, the conversion of citrus fruit growing and the subsidy for the storage of raisins);

14. Intends to express its view on this question again when the Commission has satisfied the request made in the report by the European Parliament of 20 April 1982 (Doc. 1-31/82):

'Requests the Commission to give a comprehensive account of financial management in the fruit and vegetable sector and to indicate in particular whether the withdrawal of produce from the market entailed practices which are at variance with Community regulations, what difficulties exist in distributing and processing the produce withdrawn from the market and how the distribution system can be improved, what proposals it has submitted to date to tackle structural problems and with what success, and the cost-effectiveness of distillation to produce alcohol;'

15. Instructs its President to forward this resolution and the committee's report to the Court of Auditors, the Council, the Commission and the governments of the Member States.



EXPLANATORY STATEMENTIntroduction

1. Following the report by the Committee on Budgetary Control on the Tenth Financial Report on the EAGGF - Guarantee Section (Doc. 1-31/82) it has proved necessary to examine more closely the budgetary expenditure in the fruit and vegetables sector of the EAGGF and the conditions under which such expenditure takes place. This is due to the fact that, apart from the sharp increase in costs in recent years and the forthcoming enlargement of the Community, doubts have arisen about whether financial management in this sector has been conducted correctly and cost-effectively. The purpose of this report is to examine these doubts.

At the same time this report should be seen as another urgent appeal to the Commission to produce the comprehensive account of financial management in the fruit and vegetable sector called for in the motion for a resolution contained in the above-mentioned Wettig report.

General comments on production, trade and consumption

2. In 1980 the Community produced approximately 43 m tonnes of fruit and vegetables<sup>1</sup>. Some 4.5 m tonnes of fruit and 1.2 m tonnes of vegetables were imported. Exports were equivalent to one-sixth and one-third respectively of imports. Trade on the internal market amounted in 1980 to 1.6 m tonnes of fruit and 2.4 m tonnes of vegetables.

Italy accounted for around 40% of fruit and vegetable production in 1980, with France and the Federal Republic of Germany together accounting for around 32%.

Fruit consumption in the Community in 1979/80 was 19.1 m tonnes (0.7% more than the previous year), while total vegetable consumption increased by 1.9% to 22.7 m tonnes. In 1978/79, the level of self-sufficiency for fruit was 81% and for vegetables 95% (see Annex I).

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<sup>1</sup> Plus around 2 m tonnes of tropical fruit

3. There are certain features peculiar to trade in and consumption of fruit and vegetables (such as perishability and consumer taste) which make cost-effective financial management in this area particularly difficult. In addition, producer and dealer structures and also transport and distribution channels in some Member States have their own particular characteristics with the result that conditions for marketing the produce are not always optimal.

#### Principles of the common organization of the market in fruit and vegetables

4. The common organization of the market in fresh fruit and vegetables has been in force since 1962 (Council Regulation No. 23/62, OJ No. 30, 20.4.62) It distinguishes between fresh fruit and vegetables and products for processing. Quality standards apply to thirty products, while the prices and intervention system applies to only eleven products. Basic prices and buying-in prices are fixed annually by the Council at the beginning of the marketing year. Intervention is not generalized as in other sectors and only occurs when the market is deemed to be in a state of serious crisis, i.e. when the market price remains below the buying-in price for three consecutive market days. In that event produce is withdrawn from the market by the agencies designated by the Member States. A particular feature is the Community aid to encourage the formation of producers' organizations, whose role is to help to normalize the market situation. These organizations may withdraw from the market produce supplied by their members which does not reach a specified price level.

In the case of imports from third countries, reference prices are fixed each year which are equal to the arithmetic mean of producer prices plus marketing costs. Countervailing charges are levied if the entry price (price recorded on import by the wholesaler) is below the reference price. Provision is also made for granting refunds in respect of exports. In the event of disturbances on the market, the Commission and individual Member States may take protective measures.

In 1979 a number of third countries (Australia, New Zealand, Argentina and South Africa) undertook voluntarily to limit their exports of apples to the Community. Restrictions were imposed on Chile when its exports exceeded a certain level, since it has not accepted the voluntary restraint agreement and its exports seemed likely to exceed the quantity admissible in the light of market conditions.

5. With regard to products processed from fruit and vegetables, aid arrangements apply to the processing of peeled tomatoes, tomato concentrates, peaches, dried plums, and cherries. The aid makes up the difference between the prices of canned produce from third countries and canned Community produce. The common customs tariff applies to imports and, where necessary, levies are charged.

I. General trend in budgetary costs in the fruit and vegetable sector of the EAGGF-Guarantee Section

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6. Over the past 11 years the pattern of budgetary expenditure in the fruit and vegetable sector has been as follows:

<u>in m EUA</u>											
1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
58	53	60	35	67	90	185	178	101	443	687	641
% of total EAGGF-Guarantee Section expenditure:											
2.2	3.5	2.5	0.96	2.2	1.9	3.9	3.2	1.3	4.6	6.2	5.9

These percentages, which indicate the proportion of EAGGF-Guarantee Section expenditure accounted for by the common organization of the market in fruit and vegetables, must be seen in relation to the fact that fruit and vegetables production in the Community represents 12% of the total net product of the agricultural sector in value terms. In 1980 some 43 m tonnes of fruit and vegetables were produced in the Community. Furthermore, these figures should be seen in the context of the increase in fruit and vegetable prices over the period 1970-1979: this increase was between 250 and 300% in Italy, the United Kingdom and Ireland and roughly between 160 and 270% in the remaining Member States (see Annex II).

7. Intervention in the form of processing premiums accounts for by far the largest share of the total costs in this sector. Refunds accounted for a relatively small proportion (less than 10% in the three years from 1979 to 1982) while intervention buying of fresh fruit and vegetables accounted for about one-third to one-half of total costs.

	Intervention buying		
	Refunds	Processed products	Fresh fruit
1978	48	4	49
1979	35	285	123
1980	41	491	156
1981	43	418	180

Expenditure in this sector is concentrated largely on three countries, namely Italy, France and the Netherlands.

## II. Expenditure on products processed from fruit and vegetables

8. The dramatic increase in expenditure in 1979 compared to 1978 was primarily due to the premium granted for the processing of fruit and vegetables under Council Regulation No 1152/78 (OJ L 144/78). This includes in particular aid for the processing of peeled tomatoes, tomato concentrates<sup>1</sup> and, to a lesser extent, peaches, dried plums, pears and cherries. These measures were initially intended as a means of support for producers and processing plants in the Mediterranean area, as can be seen from the fact that the measure was taken as part of the 'Mediterranean package' at a time when there was a likelihood of serious delays in Italy's payments to the Community and when the EEC needed to achieve a competitive position vis-à-vis third countries in this sector. The amount of 160 m ECU earmarked for this purpose in 1979 was increased through an additional 100 m ECU in the amending and supplementary budget and 22 m ECU in the form of transfers to 282 m ECU.

In 1980 an amount of 443 m ECU was entered in the budget, which was then increased to 484 m ECU by transfers; all but 35,000 ECU of this sum was spent.

<sup>1</sup>The Court of Auditors is currently preparing a study on this subject.

The present scale of the manufacture of tomato concentrates is one of the more questionable aspects of the overall policy of subsidization in this sector.

The following table shows the increase in the quantities involved in this sector alone:

in 1000 t (weight with juice)

	1977			1978			1979			1980		
	Gr.	9	Tot.	Gr.	9	Tot.	Gr.	9	Tot.	Gr.	9	Tot.
Tomato concentrates	95.0	182	277	172	269	468	180	432	612	240	392	632
Peeled tomatoes, whole	25	752	777	26	863	889	30	1225	1225	40	1144	1184
Peeled tomatoes in pieces	-	55	55	-	30	30	-	44	44	-	41.5	41.5
Tomato juice 20.02	nd	nd	nd	nd	nd	nd	-	85.6	85.6	-	41.2	41.2
Tomato juice 20.07	12	59	71	11	35.2	46.2	15	47.3	62.3	20	36.3	56.3

The increase in the quantities processed following the introduction of this measure clearly shows the extent to which it has acted as an incentive to production. The fact that conversion to tomato production entails no particular difficulties is also an important contributory factor. The qualitative restrictions introduced by Council Regulation No. 1206/82 of 18 May 1982 (OJ No. L 140, p.50) are to be welcomed. Because the premium represents such a high percentage of both the value of the goods (up to 95%) and the value of the end product (approx. 34%), this measure can hardly be considered to make economic sense given the large amounts of expenditure involved, even though the amount of the premiums is based on a comparison with the prices of products from third countries. Although the quantity of tomatoes processed in 1980 decreased slightly (by 1.8%), it is necessary nevertheless - particularly with a view to enlargement of the Community (Spain produces 3.2m tonnes equivalent to 40% of total Community production, and tomatoes account for the largest share of Spain's vegetable production) - to keep aids for processing down to a reasonable level.

(A similar measure has already been taken for pears and cherries. Reducing the unit rates of the processing premium, which successfully reduced the rate of increase in expenditure in 1981, is a first step in this direction).

9.(a) The report on processed products in the fruit and vegetable sector, to be drawn up by the Commission pursuant to Regulation No. 516/77 (Art. 3 (a) (1)), has been pending since 1 October 1982. The report is intended to review the operation of the sector as a whole.

9.(b) A further cause for concern is the increase in costs connected with the processing of citrus fruit (1976 : around 4 m ECU; 1982 : 96 m ECU), and, moreover, the fact that a growing number of irregularities have recently occurred in this sector. Mention should also be made in this connection of the production costs for raisins which will amount to around 200 m ECU for the marketing years 1982 and 1983.

### III. Withdrawals from the market

10. For many years the common agricultural policy has come in for strong public criticism because of the withdrawal of fruit and vegetables from the market and the subsequent spoilage or destruction of the produce with the attendant high costs for the EAGGF-Guarantee Section. (Annex III itemizes the quantities bought into intervention and the uses to which they were put).

11. Expenditure for this purpose is covered in the budget under Item 1501 'Compensation for withdrawals and buying-in and for processing and free distribution operations.'

The provisions in question stipulate that, in order to stabilize the market and guarantee appropriate production levels for 11 varieties of fruit and vegetables<sup>1</sup>, produce which cannot be sold may be withdrawn from the market at lower minimum prices: this withdrawal price is 60% of the normal price for fruit and 40% of the normal price for vegetables.

In 1979/80 withdrawals accounted for some 2.4% of the total harvest of 43 m tonnes of fruit and vegetables. In the 1980/81 marketing year withdrawals accounted for 2.0% of a total of 49 m tonnes - a relatively lower percentage. However, if one considers only withdrawals of those varieties which are covered by the intervention system, the percentages are 4.5% for 1979/80 and 4.4% for 1980/81. The extent of the problem becomes clear when it is realized that 38% of the peaches, 77% of the mandarin oranges and 79% of the tomatoes withdrawn from the market were spoilt or not usable.

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<sup>1</sup>Cauliflower, tomatoes, peaches, pears, apples, mandarin oranges, oranges, grapes, lemons, apricots and aubergines

The table in Annex III shows the bought-in quantities and costs since 1967/68.

12. Produce withdrawn from the market may be disposed of as follows:

- free distribution to welfare organizations, etc.,
- manufacture of alcohol,
- use for animal feed,
- supplied to processing plants, provided there is no risk of market distortion

In addition to these quantities, there are also each year quantities of fruit and vegetables which spoil before they reach the consumer. Although the relevant Community regulation makes no express provision for (active) destruction, it takes place nevertheless.

13. The withdrawal system as such can be justified by the following factors peculiar to the fruit and vegetables sector:

- presence of large quantities of produce on the market in a relatively short space of time,
- highly perishable produce or limited storage and transport capacity,
- distance between centres of production and consumption, making transport impossible or unreasonably costly,
- large variations from year to year in the quantities of individual products produced, combined with a relatively inelastic demand, such that, particularly in the case of a sharp drop in prices, withdrawal from the market is the only way of helping prices recover.

14. The withdrawal system helps to maintain healthy market conditions, to stabilize producers' incomes, but also to maintain the level of self-sufficiency in the Community and as such serves the interests of the consumer. Withdrawal prices do not provide an incentive for production if the provisions are correctly implemented because they do not even cover production costs, but at most reduce producers' losses.

15. However, the mechanism of withdrawal from the market, which was created to regulate the market, does not justify financing the destruction of fruit and vegetables which are fit for human or animal consumption from Community funds. The percentage distributed free of charge is minute compared with the quantities spoiled or destroyed (Annex III) and this is a clear indication that not enough is being done to ensure that as much of the produce as possible is disposed of usefully.

16. The withdrawal mechanism is modelled on the practice in the Netherlands, where the market is relatively small, homogeneous and also fairly transparent and where for a long time the traders' organizations have played an important role in regulating production and marketing. The system is mainly implemented, however, in the Mediterranean countries, where the situation is not necessarily the same. The Court of Auditors noted in its special report of 6 October 1980 (OJ C 258), for instance, that the market situation in Italy is frequently such that - often as a result of the partitioning of the market by the three major production and marketing organizations which operate there - that in some areas demand cannot be satisfied while in others withdrawals are necessary.

#### Quality requirements

17. Products must also comply with the quality standards applicable to marketing<sup>1</sup> and must be used for one of the purposes laid down in Regulation 1035/72.

It is a fact that high-quality produce always has a good chance of being sold. However, in the 1979/80 marketing year around three quarters of the apples bought into intervention were of the large and high-quality variety, while smaller or lower-quality apples remained on the market. Just as regrettable is the fact that quite considerable quantities of other products of Class III quality are bought into intervention. In the 1979/80 financial year, for instance, around 16% and 11% respectively of Class III cauliflower was bought into intervention in Belgium and Ireland, the figures for tomatoes being 40% and 43% respectively. If intervention buying of Class III products were abolished altogether, there would no longer be any incentive

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<sup>1</sup>The seventh recital of Regulation 1035/72 states that its aim is to keep 'products of unsatisfactory quality off the market, guiding production to meet consumers' requirements, and facilitating trade relations based on fair competition, thus helping to improve the profitability of production'.



to produce them and they would be gradually pushed off the market by higher-quality produce in respect of which intervention would not be necessary.

To this end it is essential that the common quality standards are strictly applied, particularly for varieties which are covered by the intervention system. This means, however, that checks must be stepped up at the production stage and that the relevant provisions must be interpreted uniformly. This objective is difficult to reconcile with current practice whereby the implementation and verification of quality standards and the initial and further training of inspectors are left to the Member States. This is due firstly to the lack of Community funds and secondly to the fact that the Member States have not been prepared to transfer their powers in this area to the Community. A first step in the harmonization of inspections could be made at the level of the Management Committee for Fruit and Vegetables, thereby leading to a standardization of practice in the Member States. The application of Community standards should not be left entirely in the hands of national authorities or organizations, as this would defeat the object of their uniform interpretation in all Member States.

In any event, reducing supply by keeping poor-quality products off the market is the best means of eliminating surpluses and thus of removing the cause for the justified public criticism of the waste of taxpayers' money on more and more uneconomic withdrawal measures.

18. The financial compensation paid out from the EAGGF-Guarantee Section corresponds to the difference between the withdrawal price inclusive of packing and transport costs and the price after possible further processing of the products bought into intervention (although the latter component accounts for an increasingly small percentage).

#### Breakdown of withdrawal measures by Member State

19. 95% of withdrawals in the Community take place in Italy, France and the Netherlands. Italy alone accounts for nearly three quarters of withdrawals.

Breakdown of expenditure by Member State:

	<u>1979/80</u>	<u>1980/81</u>
Italy	59.8%	66.5%
France	11.75%	17.62%
Netherlands	12.44%	5.05%
Germany	8.68%	3.07%
Belgium	6.38%	5.12%
U.K.	0.85%	1.78%
Ireland	0.1%	0.06%
Greece	-	0.8%

The following table shows the percentage accounted for by Italy:

in m ECU

	Total expenditure fruit and vegetables sector	Costs of withdrawals from the market	Italy's share in %
1976	185.1	86.6	63
1977	178.2	140.0	93
1978	100.7	21.5	93
1979	442.9	65.9	62
1980	687.3	102.7	60
1981	641.1	106.0	58

Annex IV shows the financial cost by product and Member State, while Annex V shows the quantities and costs since 1967.

## Producers' organizations

20. The producers' organizations play a key role with regard to withdrawals, since they are responsible for ensuring that withdrawals are effected in an orderly manner in accordance with the provisions.

They are required to comply with certain criteria as regards the conscientiousness of their work and the actual opportunity for influencing their members, particularly as regards the implementation of Community standards. They must ensure the smooth and orderly operation of the market. The supply of goods on the market should not be allowed so to interfere with normal price formation, as a result of undisciplined action by its members, that relatively small quantities of non-competing products unsettle the overall price structure, leading inevitably to an increase in intervention buying. This shows how necessary it is to organize as many of the producers as possible of a particular region<sup>1</sup>. A less well-organized producers' organization might be forced, for instance, to resort to withdrawals from the market considerably earlier than an efficiently-run organization with a well-organized supply and distribution system and a clear view of the demand situation.

Strong producers' organizations are also important as a counterweight to the wholesale trade. If they become too strong, there is a danger of them exerting a one-sided influence on the quantities produced, and thus on prices. Consequently, it is important to strike a balance between both factors on the supply side of the market.

21. A survey of producer groups in France and Italy carried out for the Commission showed that of 82 producers' organizations in Italy, four failed completely to meet the requirements and, therefore, ought not to have

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<sup>1</sup>See also the Commission proposal (COM(81) 403 final) on strengthening the structure of producers' organizations and the possibility, at the request of a producer group, for a Member State to extend its rules to other producers not attached to the group in question.