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NEW DECISIONS AFFECTING THE COMMON MARKET ORGANIZATION FOR FRUIT AND VEGETABLES

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NEW DECISIONS AFFECTING THE COMMON MARKET ORGANIZATION FOR FRUIT AND VEGETABLES

A whole series of regulations were approved and finalized at two Council meetings in late November and early December 1969. With their adoption the market organization for fruit and vegetables moved a good deal nearer to becoming a genuine common market.

Some of the new regulations are texts to supplement or amend Regulation No. 23 of April 1962 and have been with the Council for a long time. Others were only recently drafted on the basis of new facts brought to light by a review of the present market situation.

A. The situation at the beginning of 1970

I. Problems posed by the application of Regulation No. 159/66/CEE

The Commission's report to the Council on the application of a number of market regulations was largely instrumental in ensuring that a series of additional proposals to supplement and improve existing regulations could be drafted and adopted by the Council within a relatively short space of time. The preparation of the report coincided with the implementation of the first intervention measures on the fruit and vegetable market. Shortcomings in their application, combined with a bumper harvest, had led to fruit and vegetables being destroyed. This destruction was regrettable and was sharply criticized by the public, largely because of one-sided press coverage.

The intervention machinery is by no means the cornerstone of the market organization for fruit and vegetables, but it is new and unconventional. The Community had no practical experience of it and had to learn how to handle it.

The real key to the market organization for fruit and vegetables is the quality standards. On these depend all other measures to regulate the market. To the outsider, however, the effect of these standards is not spectacular. They have been introduced gradually over the years since 1962 and have resulted in a slow but visible improvement in the quality of produce put on the market. For all practical purposes these standards, which could have been regarded as sensational, have posed no problems at all. There have been difficulties of course - questions which have had to be tackled and resolved; indeed, some points concerning general implementation are still awaiting a complete solution, but these are matters which have never hit the headlines.

The abnormalities produced by the market support arrangements - in other words, by the application of Regulation No. 159/66/CEE - did, however, focus public attention on the problems of the fruit and vegetable market and showed that a thorough investigation was necessary.

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The Commission took advantage of this opportunity to review all the problems to which a solution had to be found before the end of the transitional period. Here we shall follow the lead given by the Commission in its report and deal with Community and national measures separately.

1. Community measures

(a) Meeting the deadlines

The Community's main task is to fix basic and buying-in prices for the various products concerned. The Commission drafts the necessary proposals on the basis of data supplied by the Member States, and the Council must decide on these proposals before the beginning of each crop year. At least, this is what Article 4 of Regulation No. 159/66 requires. In practice, however, it has not always been possible to meet this deadline, largely because of delays in the transmission of data from the member countries; many prices were either published too late or were only published on time for the first part of the year. This is awkward for growers, particularly where they need to know the buying-in price when they are signing growing and delivery contracts.

(b) Basic price

Difficulties still arise in connection with the method used by the Commission to calculate its proposed basic price.

The basic price is calculated by means of moving averages from quotations on representative markets. Unduly high or unduly low prices are ignored. The basic regulation, however, contains no clear, straightforward statement as to what should be regarded as too high and too low.

The basic price is fixed for a specific product with specific commercial characteristics, such as variety or type, quality class, size and presentation. A product so defined is taken as the pilot product, and fluctuations in its price level are used to assess the market situation. When a pilot product is chosen, therefore, care must be taken to ensure that it will provide a sufficiently broad basis of reference - in other words, that it is always available on the market in sufficiently large quantities to represent all Community production throughout the crop year. To ensure adequate representation it is sometimes necessary to choose a number of pilot products which can be valid at the same time or one after another. The individual pilot products can vary in presentation, or different varieties can be chosen. It is also possible to select what are known as "derived" pilot varieties; these are valid for a specified area only and can be used to establish whether or not a crisis exists in that area.

Some means had to be found whereby the price of pilot varieties and derived pilot varieties could be made comparable. There were occasional differences of opinion as to how this should be done. The

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ratio between the prices for two varieties is not the same in all market situations; if the market for one variety is already disturbed, prices for other varieties will tend to fall too. The Commission felt for this reason that the general application of a coefficient calculated solely on the basis of normal market conditions would not meet the requirements of a crisis situation.

(c) Buying-in price

The buying-in price is not calculated separately but is fixed within a specified range related to the basic price. The delegations did not always agree on the level to be chosen within this range. In this the government representatives were not guided by the needs of the common market alone. They allowed themselves to be influenced by financial considerations because as long as there was a difference between national buying-in prices and the price fixed by the Council the Member States would be involved in expenditure.

In the case of apples - which keep better than any other fruit - it was found that too sharp a variation between the buying-in prices in two consecutive months encouraged a certain amount of speculation. People with apples in store withheld them from the market until the buying-in price had reached the prescribed level.

Allowance was made for this in the 1968/69 price proposals. The monthly increases in the buying-in price were made smaller, and the buying-in price for May was fixed below the lowest level specified in the regulation. This was permissible under the article which contains provisions for the adoption of exceptional measures.

(d) Using produce withdrawn from the market

Ways of using fruit and vegetables withdrawn from the market must also be laid down on a Community basis. After consultation with the Management Committee, the Commission adopted Regulation No. 165/67/CEE concerning the disposal of produce bought in by the Member States under the intervention arrangements for the fruit and vegetables market. The possibilities listed here - processing into 80° proof alcohol, feeding to animals in processed or unprocessed form, use for non-food purposes - were not enough to prevent a large proportion of the fruit and vegetables withdrawn from the market being destroyed. The fact that this happened to a lot of the produce withdrawn from the market in the early days of intervention raised considerable problems in the Member States, largely because of the public outcry it caused.

2. National measures

(a) Scope of intervention arrangements

Although Regulation No. 159/66/CEE did create Community conditions for an intervention system, implementation remained a matter for the Member States.

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Two Member States - Germany and Luxembourg - have made no use of the intervention arrangements as yet. The other four have made either full or partial use of them.

This led to the greatest possible variety of arrangements.

For some products growers' organizations could intervene and were paid financial compensation by the Member State. The state itself intervened for specified products only. In Italy, where there are not enough growers' organizations, the state retained the right to step in before the beginning of a grave crisis. France adopted a special rule not included in Regulation No. 159/66: produce which failed to reach a certain standard could not be put on the market or bought in, and only growers who had joined an organization could benefit from government action to support the market.

The French argued that the effect of intervention through growers' organizations helped everyone, including growers who did not belong to any organization. Independent growers could continue to dispose of their produce while members of growers' organizations would have to withdraw theirs. There was a danger, the authorities felt, that French growers would lose interest in co-operatives. The Commission recognizes this as a problem hindering the formation of growers' organizations, which have now become absolutely essential.

The Commission also agreed that poor-quality produce should be the first to be withdrawn from the market in times of crisis, but it subsequently suggested another way of dealing with this problem.

(b) National buying-in prices

On a number of occasions the Member States took advantage of their option of fixing national buying-in prices at a level higher than those fixed by the Community. This led to further variations in the pattern of intervention.

(c) Crisis situations

Until the transitional period ended on 31 December 1969 it was for the Member States themselves to determine when a crisis - or a grave crisis - on their own markets began and finished. A crisis was held to exist if quotations for a pilot product, or one or more derived pilot products, on one of the representative markets remained below the buying-in price plus an amount equal to 15% of the basic price for three consecutive market days.

If a crisis was found to exist, growers' organizations received compensation from the Member States for intervening on the market, part of this expenditure being refunded to the Member States by the EAGGF.

Quotations were also used to determine when a crisis had come to an end. If prices remained at least as high as the "crisis price" (i.e. the buying-in price plus 15% of the basic price) for three consecutive market days, the crisis was over. It was virtually certain -

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especially in areas where the bulk of market deliveries was not in the hands of growers' organizations - that the organizations would continue to withdraw their produce even after this.

The difficulties resulting from this for growers' organizations - their intervention expenditure was only refunded in times of crisis - was one reason why this type of crisis provision was omitted from the new regulation which is to apply after the end of the transitional period.

A similar situation arose because different buying-in prices were fixed by the Member States. The evidence for a grave crisis - i.e. the point at which the state agencies can step in - is also based on price quotations. If prices remain below the buying-in price for three consecutive days the market is held to be in a state of grave crisis. But since buying-in prices are not uniform, grave crises do not end at the same time in all Member States even if the market situation in these countries is identical. This was liable to lead to deflections of trade, and it was possible that the need to introduce intervention measures in one Member State would bring about an immediate improvement in the market situation in a neighbouring Member State in which a grave crisis had not in fact developed.

3. Conclusions

(a) Controlling supply

Market research has shown that supply will still have to be controlled in the future. With improved quality requirements, poorer qualities could be kept off the fresh produce market unless they were needed for economic reasons - for example, in the event of a shortage.

Quality standards need to be more flexible in times of glut, and intervention arrangements must be changed to ensure that intervention affects Class II produce first. Better-quality produce would be withdrawn only if intervention for Class II produce had failed to stabilize the market.

For a number of products, higher quality standards will have to be combined with an active supply-control policy in the years ahead if structural surpluses are to be eliminated.

Market research revealed that there was a tendency for supplies of apples, pears and peaches to exceed the market's capacity to absorb them. The main reason for this is that although there are now orchards which are producing better-quality fruit and, at the same time, making growing more economic by increasing returns and allowing a rational use of machinery, there are still old orchards in a number of areas. There is a need here for an improvement scheme which would make it easier for growers to take the decision to grub these orchards, which produce qualities and varieties which fall short of modern market requirements, thereby depressing the general price situation.

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A scheme of this kind would be in the consumer's interest because consumers have shown by their market behaviour that what they want is good-quality fruit at steady prices.

(b) Intervention

Despite the adverse publicity intervention attracted in its early days, experience has shown that the fruit and vegetable market cannot be kept in order without it. The aim of improved intervention arrangements must, however, be to shift responsibility for market operations to the growers. This can be done only if efficient growers' organizations are capable of taking on this task, which is more than any one organization could handle.

The immediate problem, therefore, is to strengthen the position of growers' organizations, to make it easier for them to implement intervention measures and to help them financially to bear an appropriate share of the cost.

It is absolutely essential that intervention is implemented as uniformly as possible if it is to have the desired effect.

Care will also have to be taken in future to ensure that speculation does not lead to the best qualities being removed from the market. The best way of doing this would be to apply buying-in or withdrawal prices for Class II produce to better-quality (Class I or Extra) produce.

There is also to be a wide choice of ways of disposing of fruit and vegetables removed from the market. In particular, there will be provision for the free distribution of the fresh produce, or products processed from it, at the Community's expense, to lower-income groups. This is neither a cheap nor an easy way of disposing of the produce, but it should be encouraged by the fact that no refunds will be available from the EAGGF in future for fruit and vegetables which are destroyed. The Commission is convinced that if the Governments and responsible agencies make the necessary effort there will be no need, after an initial running-in period, to destroy any produce.

(c) Trade with non-member countries

Any attempt to improve the market situation within the Community calls for improved protection. The reference price system which has been in use up to now was not always felt to be satisfactory. The concept of Community preference, which derives from the Treaty of Rome, calls for more uniform and automatic arrangements.

Nothing had been done to standardize and co-ordinate the arrangements applied by Member States to imports from non-member countries. Attention had been drawn to the need for action on many occasions, and the relevant proposals were with the Council for some considerable time. The recent batch of regulations has finally solved the problem.

There also seemed to be a need for a general regulation on refund arrangements for the Community's exports of fruit and vegetables which are of considerable economic importance.

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II. Problems on the orange market

As a general rule, citrus fruit - oranges, mandarins and lemons - were not singled out for separate treatment under the fruit and vegetable market regulations. Both France and Italy must be regarded as producing countries, although it is only in Italy that production reaches a significant level. In 1968 France only produced 4 000 tons to Italy's 1 350 000.

Citrus fruit are subject to all the market regulations for fruit and vegetables. They are covered by the rules on quality standards and by the Community's market support arrangements. They enjoy the same protection as other fruit and vegetables to preserve Community preference.

But despite all this the marketing of Italian oranges within the Community is unsatisfactory, so unsatisfactory indeed that the Commission arranged for a basic survey of the situation.

Between 1962 and 1968 production of oranges in Italy increased steadily from 712 000 tons to 1 350 000 tons (an 89% rise), and it will probably continue to expand at the same rate.

In 1968 88.5% of these oranges were marketed within Italy. Only 3.9% were exported to other EEC countries; 7.6% of total production found a market in non-member countries, the main importers being Switzerland, Austria and Sweden. Germany provides the only significant market for Italian oranges in the Community. Of the 52 052 tons exported to other Community countries, 45 125 tons went to Germany, 5 716 to Belgium and Luxembourg, 944 to France and 267 to the Netherlands.

As production increased in Italy, orange growing in other Mediterranean countries expanded too, particularly in Spain, Israel and Morocco. Italy's share of total Mediterranean output, which used to be in the region of 19%, is showing a slight tendency to fall. In the period we are considering (1962-68), however, it was not only production but also consumption which increased.

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Totals for the years	1962	1964	1966	1968
Italian production	712	1 020	1 177	1 350
+ Imports from non-member countries	1 374	1 725	1 669	1 503
- Exports to non-member countries	92	103	84	104
= Consumption	1 994	2 642	2 762	2 749

The table shows that Italian production has covered between 35 and 49% of Community requirements; this percentage would be even higher if the calculation were based only on those months in which Italian oranges

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are available and if periods in which oranges are imported from other areas were ignored. But virtually all Italian oranges are consumed in Italy: only 3 to 4% of total production is exported to other Community countries. Community imports from other Mediterranean countries had to be stepped up to cover overall demand. In 1968 more than 70% of Community imports came from Spain, Morocco and Israel.

Italy was justifiably alarmed by this situation, but now, thanks to a Commission inquiry, the reasons for current marketing difficulties have been established and possible remedies suggested.

1. Problems associated with the market organization

(a) Intervention

The arrangements laid down in Regulation No. 159/66/CEE, with growers' organizations intervening in the event of a crisis, could not be applied in this form on the orange market since orange-growers did not have any suitable organizations.

In 1967/68 and again in 1968/69 the Italian authorities found that the market was experiencing a grave crisis and official buying-in took place on a number of occasions. There was a grave crisis from 6 to 21 April 1968 and another from 6 to 21 May 1968. Normally, the period for the application of intervention arrangements would have ended on 30 April, but it was extended to 25 May because of the weather conditions which had been at the root of the disturbance. During this period the Italian intervention agency, AIMA (Azienda Interventi Mercato Agricolo), bought in 31 724 tons of oranges, representing 2.35% of Italian production.

Because there was no intervention through growers' organizations, which begins at a slightly higher price and therefore acts as a brake on the downward trend, the effects of a grave crisis were much more far-reaching and there was a danger that the threatened crisis of 1968/69 would have severe repercussions on the whole of southern Italy. The Italian authorities therefore gave the Commission to understand that they considered preventive intervention arrangements to be necessary.

After viewing the problem from all angles, the Commission submitted a proposal for a new system to the Council. Under this, intervention would begin before prices fell below the grave crisis level, and Class II and Class III produce, which is not in much demand, would be withdrawn first to ease the market situation. This proposal was approved by the Council and became Regulation (EEC) No. 324/69. It gives precise instructions for implementing these intervention arrangements and for disposing of the produce withdrawn; this must not be destroyed under any circumstances.

An important point is that here, for the first time, the free distribution of processed (not only fresh) fruit to lower-income groups is mentioned as a possible way of disposing of bought-in produce.

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The additional cost involved in distributing and processing the fruit will be borne by the EAGGF.

Intervention under this regulation in connection with one threatened crisis involved about 35 000 tons of fruit.

(b) Trade with non-member countries

Export and import arrangements for oranges are not substantially different from those applied to fruit and vegetables in general. There is, however, a slight difference in the rate of customs duty charged; and the methods used to calculate the duty and the coefficient for comparing Italian and foreign varieties for reference price purposes are also different. A number of special problems have arisen in this connection.

Oranges imported from non-member countries are liable to a 15% duty from 1 April to 15 October and to a 20% duty for the rest of the year (from 16 October to 31 March). The 15% duty, for the months outside the Community's main production season, has been bound in GATT.

Special arrangements apply to oranges from Turkey, Tunisia, Morocco, Spain and Israel. The CCT duties on these oranges can be reduced under certain circumstances.

Since, however, the main harvest-time in these countries coincides with the main harvest-time in the Community, the principle of qualified preference is applied - which means that preference is given only if the price of the imported oranges is above a certain level.

To qualify for preference, the price of the imported fruit, plus customs duties but less transport costs and other import charges, must be higher than the reference price plus the incidence of the CCT duty on the reference price and a standard amount of 1.2 u.a./100 kg.

If the price of the imported fruit is lower than this but higher than the reference price, preference is lost and the full CCT duty is charged.

Finally, if the price of imported fruit is below the reference price, a compensatory amount is charged in addition.

The basis of assessment is of the utmost importance since the CCT duty is an ad valorem one. This basis - in other words, customs value - is still fixed in accordance with national rules, which means that oranges are not imported under the same conditions in all Member States.

The Committee on Customs Value is therefore trying to work out a system whereby common average standard values would be used to assess the value of goods for customs purposes.

A second problem is that customs value is often indiscriminate. In some Member States a customs value is fixed for all oranges, without reference to variety.

But the price difference between the various varieties can be considerable. It seemed necessary, therefore, in the context of the work being done by the Committee, to try to solve the problem by dividing oranges into groups of varieties and fixing a standard value for each group.

As regards the reference price system, the mere fact that a system of countervailing charges existed was enough to keep import prices for oranges at a suitable level. On 5 December 1969, however, a countervailing charge of 2.5 u.a. had to be introduced on imports of mandarins, satsumas, clementines, tangerines and other citrus hybrids from Algeria because the import price was 15.1 u.a. - 2.5 u.a. below the reference price of 17.6 u.a. A week later a countervailing charge had to be imposed on oranges from Greece too.

The general question of reference prices and countervailing charges is no different for oranges than for other fruit and vegetables. Special problems did arise, however, in connection with the coefficients used in comparing the prices of Community and imported varieties.

These coefficients were based on quotations on the Community's import markets during previous years and, given the general price ratios between the EEC and non-EEC varieties, were higher than 1 for the most important imported varieties. This meant that the level of protection provided by the reference price was artificially reduced. When the reference price was last fixed, this ratio was corrected in the light of the latest information on comparative prices.

2. Comment

The difficulties we have been discussing are not so enormous as to prevent Italian oranges being offered in the Community at a price below the level of protection - in other words, at a competitive price. Prices to growers were particularly low in Italy last year and should have favoured exports; but sales to other Community countries were still not satisfactory.

This is why the Commission feels that the root cause of the difficulties on the Italian orange market has nothing to do with the way the common market organization operates. It is true that the market organization could be improved in a number of respects, but this would not be enough to bring about a radical improvement in the situation.

The Commission therefore extended its inquiries to the technical and commercial aspects of the problem in order to establish what is preventing Italian oranges from finding a market in the rest of the Community.

3. Difficulties in marketing Italian oranges

(a) Varieties and harvest-time

Consumer tastes have changed over the last twenty years. Today, the main demand is for seedless, light-coloured varieties with a high sugar content. The growing of ordinary light-coloured varieties declined in Italy, as it did in other producing countries. In Italy, however, this decline did not favour the growing of the seedless, light-coloured varieties which are in general demand but rather of pigmented varieties, which can only find a satisfactory market in a limited number of areas in the Community and must for the most part be marketed in Italy.

The Italian orange harvest extends over seven months, but it is only from December to April that worthwhile quantities can be exported; during the other months the harvest is so small that the entire crop is absorbed by the domestic market.

The main disadvantage of this is that Italian oranges arriving on other Community markets clash with oranges from various competing countries which have already been accepted by the consumer. Some of these countries have made a special effort to advance their harvests to meet the demand from importers, and for some years now light-coloured varieties such as Navelines have been appearing on Community markets in October.

The same applies to later varieties; these countries have now succeeded in staggering harvests in such a way that they can supply Community markets from October to June.

These difficulties, which are linked with the pattern of production, have been causing concern in responsible quarters in Italy for some time. Research has been carried out and an effort made to apply its results so as to change the crop pattern. But the conversion measures which are necessary to combat these difficulties have run into technical and economic obstacles which are virtually insurmountable in many cases. This is why the various steps which have been taken so far have only been partially successful. In particular, attempts to reorganize and modernize production have been thwarted in many areas by the multiplicity of small growers with limited production facilities.

(b) Marketing conditions within the Community

In Italy production is adapted to the market and the market to production. But this is a handicap when it comes to exporting to markets where different conditions obtain. With a few exceptions, nothing is being done to create a suitable marketing infrastructure. A variety of new outlets must be found because despite increased domestic consumption supplies of exportable varieties have risen fairly sharply.

Faced with very similar circumstances - a supply pattern which did not favour exports - non-member countries competing with Italy on

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Community markets have taken specific action to improve their chances of penetrating the markets of importing countries. In some instances this action was backed by state, quasi-public or growers' agencies and an export policy covering the whole process from growing to distribution was put in hand.

4. Conclusions

If Italian oranges are to find a market within the Community, the following marketing objectives must be kept in mind:

Where it seems possible to gain a foothold on a market, Italian fruit must always be available on the market. At the same time a concentrated effort must be made to penetrate the market in depth. This will call for adequate and steady supplies of good-quality fruit so that importers will not run the risk of broken deliveries. Furthermore, the lots exported must be sufficiently homogeneous as regards quality and sizing.

But guaranteed supplies are not enough of themselves to secure a market. An advertising campaign geared to local conditions will be necessary for an adequate period.

To turn to the purely technical aspect of the problem, marketing methods too will need to be adjusted to local conditions.

For instance, the "gross for net" marketing system presents problems for French importers since it is not allowed in deals between wholesalers and retailers. This system is also criticized by Dutch traders.

Buyers' preferences must be borne in mind in the matter of presentation. The Sanguinelli variety, for example, is better presented and easier to market in packs of up to 10 kg or - better still - in flats with three rows of fruit.

If these aims are to be attained, the structure of production will have to be improved, costs will have to be lowered and growers will have to be encouraged to produce varieties which are in demand.

Given the marketing conditions described above, growers will have to have the most up-to-date technical facilities for sorting, packing and storing fruit.

It will be several years, however, before these measures can show results. In the interim, short-term assistance must be forthcoming to facilitate the conversion process and to help ease the growing pains of an effective market policy.

B. The new regulations

I. Quality improvement

The new regulations on intervention and reorganization contain measures to improve quality, and these will be discussed in detail in the appropriate place. But the regulation which deals specifically with quality is:

Council Regulation (EEC) No. 2516/69 amending Regulation No. 158/66/CEE on the application of quality standards for fruit and vegetables marketed within the Community.

1. Applicability of additional quality classes

The purpose of this regulation is to establish when and to what extent the additional quality classes laid down pursuant to Article 2 of Regulation No. 158/66/CEE should apply.

The additional quality classes were introduced in the interests of grower and consumer alike. Growers have an economic interest in being able to market their "sub-standard" produce, and consumers want to be able to buy this type of produce. Market requirements are constantly changing, however, and now that deliveries to treatment and processing plants and farm-gate sales for direct consumption by consumers no longer need to comply with quality standards, it seems desirable to limit the applicability of the additional quality classes (Class III) to certain exceptional cases.

These classes will be approved only if needed to meet consumer demand, the conditions for determining whether this is so being agreed upon in accordance with Management Committee procedure. If the Council does not extend the period provided in the present regulation, the additional quality classes will fall out of use after five years.

2. Exceptions

By limiting the scope of the additional quality classes, the Commission is safeguarding the improvement already noticeable in the quality of market supplies and is providing growers with an incentive to aim higher.

Hitherto, in years when exceptionally lean harvests meant that requirements might not be covered, the Member States could be empowered to introduce rules for their own markets representing a departure from the quality standards. This arrangement, covered by Article 7 of Regulation No. 158/66/CEE, has now been amended. In future, exceptional measures of this kind will be introduced for the entire Community through the Management Committee procedure. The marketing of Class III produce - where this additional quality class exists - must be sanctioned before any other special steps can be taken.

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Arrangements have also been made to deal with the opposite case. If supplies complying with the quality standards are in excess of consumer demand, the minimum size requirements can be raised. Before this can be done, however, the additional quality classes must be excluded from the market.

3. Effective date

This amending regulation came into force on 1 January 1970 and will apply from 1 June 1970.

II. Intervention

Conditions on the fruit and vegetable markets have changed somewhat since Regulation No. 159/66/CEE came into force. Furthermore, the experience gained in implementing this regulation has shown that some provisions could do with amending. This has been done with the adoption of Council Regulation (EEC) No. 2515/69 amending Regulation No. 159/66/CEE containing supplementary provisions for the common organization of the market in fruit and vegetables.

1. Community application

Regulation No. 159/66/CEE left the Member States free to choose between paying financial compensation to growers' organizations withdrawing produce from the market and buying in the produce themselves through an agency designated for this purpose.

The different arrangements to which this provision gave rise in the several member countries reduced the effectiveness of the intervention machinery and distorted competition between the various transactors. The Council has therefore decided that intervention arrangements will be uniformly applied in future. Each 'may' in the original version of the regulation has been dropped to make way for a binding 'shall'.

This means that the Member States are now bound to pay growers' organizations financial compensation and to intervene directly in the event of a grave crisis.

However, since some Member States may find it extremely difficult to comply with the second of these obligations, a waiver provision has been written into the regulation. To claim exemption, the Member States in question must formally notify the Commission that they would in fact find direct intervention extremely difficult. Any Member State claiming exemption must take the necessary steps to create growers' co-operatives capable of implementing market support measures.

The Commission is to report to the Council before 1 May 1971 on the implementation of this regulation. Any additional measures which may prove necessary to ensure uniform intervention arrangements will be enacted by the Council on a proposal from the Commission.

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2. Intervention arrangements to improve quality

We have seen that intervention under Regulation No. 159/66/CEE sometimes meant that Class I produce was bought in while Class II produce remained on the market, which was no longer under pressure, and fetched prices in excess of the buying-in price for Class II produce. Speculation of this kind by growers defeats the whole purpose of intervention, which is to stabilize the market as quickly as possible and to keep prices steady. Such speculation will be impossible in future.

Under the new regulation, intervention by growers' organizations receiving financial compensation from the Member States and direct intervention by the Member States themselves will be at the Class II price level only, irrespective of whether the produce offered is of superior quality and could be regarded as Class I or Extra.

3. More flexible intervention through growers' organizations

Growers' organizations must be able to adapt to local conditions, and they must be in a position to act quickly to prevent the bottom falling out of the market. This is why the arrangements for determining "ordinary" crises have been dropped, making it possible for growers' organizations to take quicker and more flexible action to support the market.

At the same time, to ensure maximum uniformity in the matter of intervention despite the greater freedom which has been granted to growers' organizations, the price (on which a ceiling will be placed by the Member States) at which growers' organizations withdraw produce to which the intervention rules apply will correspond to the buying-in price plus 10% of the basic price. If the withdrawal price is at this level and the compensation paid to members of growers' organizations does not exceed the amount corresponding to this price, the Member States guarantee to pay growers' organizations financial compensation. The compensation will correspond to the indemnities paid by the growers' organizations less the net return on the produce withdrawn from the market.

Withdrawn produce in respect of which financial compensation is paid can be utilized in the same way as produce bought in by the States themselves.

4. Buying-in through state agencies in times of grave crisis

No change has been made in the substance of the provisions of Regulation No. 159/66/CEE on this, but the wording has been amended to allow for Community implementation and the measures to improve quality.

Under Article 8 of Regulation No. 159/66 the Member States were free, until the end of the transitional period, to fix national buying-in prices at a level other than that fixed by the Council; it was therefore for the States themselves to decide when a crisis or a grave crisis was affecting their markets.

In future there will be only one buying-in price - that fixed by the Council - and the beginning of a grave crisis will be determined by the Commission. There will no longer be any arrangements for an "ordinary" crisis.

Since these changes in intervention arrangements cannot be implemented once a marketing year has begun, they will come into force on 1 May 1970 for cauliflowers and on 1 June 1970 for the other vegetables and fruit listed in Annex I to Regulation No. 159/66.

5. Utilization of withdrawn produce

The possible ways of using withdrawn produce listed in Regulation No. 165/67/CEE were not concerned to prevent produce being destroyed. Since the new procedure is designed to do this, the list of possible uses has been extended to include free distribution of fresh or processed produce. The new list reads as follows:

(a) free distribution to welfare institutions and to lower-income groups;

(b) utilization for non-food purposes;

(c) utilization in the fresh state as animal feed;

(d) utilization as animal feed following processing by the feedstuffs industry;

(e) processing and free distribution of processed products to the needy.

Apples, pears and peaches can also be processed into alcohol with a strength of at least 80°.

In addition, the Management Committee procedure can be used to decide that specified categories of this produce can be disposed of for processing, provided this does not lead to distortion of competition in the Community's food-processing industry.

If the produce bought in cannot be disposed of in time in any of the ways listed, the Member States can decide to compensate growers who undertake to dispose of a given quantity of produce on their own farm rather than put it on the market.

The Member States will be responsible for the free distribution of withdrawn produce. They will call for tenders for the allocation of produce to the feedingstuffs industry, to manufacturers of jams, preserves and the like, and to distillers.

The implementing provisions and control procedures needed to apply this article, to determine adjustment coefficients and criteria for tenders will be determined in accordance with the Management Committee procedure.

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6. Export refunds

The payment of export refunds serves the same purpose as intervention, namely to relieve pressure and to stabilize the market.

To allow fruit and vegetables to be exported on competitive terms, the difference between Community prices and world prices may be bridged by an export refund where necessary. A single refund will apply throughout the Community, though it may vary with the country of destination.

The refund will be paid on application.

When fixing the amount of the refund for specified products and specified countries of destination, the Commission has undertaken to bear in mind the real advantages which these refunds could bring to the Community's foreign trade.

7. Basic rules for the payment of export refunds

The basic rules for the payment of export refunds and the criteria for fixing the amount of the refunds were laid down in a special regulation:

Council Regulation (EEC) No. 2518/69 establishing general rules for granting refunds on exports of fruit and vegetables and criteria for fixing their amount.

(a) Factors to be borne in mind

Before the refund can be paid, the current market situation and the future outlook must be borne in mind. This calls for market intelligence on prices and availabilities, which must be compared with world market prices.

When comparing these prices, allowance must be made for marketing costs and minimum transport costs from Community markets to the ports of loading or other exporting points in the Community together with transport costs to the country of destination.

With this information to hand, the economics of the proposed exports can be assessed.

(b) Prices

Prices on the Community market are to be established in the light of the prices which most favour exports.

Prices on the world market are to take account of

(i) prices noted on the markets of non-member countries;

(ii) the most favourable prices obtaining in non-member countries for imports from other non-member countries;

(iii) producer prices in exporting non-member countries;

(iv) offer prices at Community frontiers.

(c) Differentiated refunds

The Community refund for any one product can be fixed at different levels depending on destination, should the world market situation or special conditions on a given market make this necessary.

(d) Payment

Before refunds are paid, the applicant will have to produce evidence that the produce in question did in fact originate in the Community and was actually exported from the Community. If the refund is for a given area, the applicant must also show that the produce actually reached that area.

III. Trade with non-member countries

1. Improving the reference price system

The reference price system forms part of Regulation No. 23, which dates back to 1962. Experience has shown that some provisions of Article 11(2) of Regulation No. 23 must be amended if the preferential treatment for Member States required by the Treaty is to be maintained. The new version of this regulation is

> Council Regulation (EEC) No. 2512/69 amending Article 11(2) of Regulation No. 23 on the progressive establishment of a common organization of the market in fruit and vegetables.

This new text makes assessment of the market situation more rapid, uniform and automatic than it has been hitherto.

On every market day in future an entry price based on quotations recorded on import markets will be calculated for each product covered by the reference price system and for each country of origin. If the entry price is lower than the reference price the Commission can now decide on the level of the countervailing charge without consulting the Management Committee. This should streamline and speed up the whole process.

When quotations are being assessed, particular attention must be paid to the question of quality. If the produce falls into a class lower than that for which the reference price was fixed, there are two possible courses of action - the quotations can either be reduced if production conditions in the country of origin mean that the produce is not normally marketed in the quality class for which the reference price was fixed, or the quotations can be used as they stand to calculate the entry prices. This is a tactical move to spike the guns of certain non-member countries who try to circumvent the reference price system by systematically downgrading their produce.

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The entry price for a given country of origin is equal to the lowest quotations or the arithmetic mean of the lowest quotations for at least 30% of the quantities marketed.

When the entry price is being calculated, the following costs arising in the importing country are deducted from the quotations on the Community's import markets:

(a) CCT duties;

(b) any countervailing charges;

(c) other import charges affecting the market price;

(d) the cost of transporting the produce from the frontier crossing point to the representative Community import markets on which the quotations were recorded.

Reckoning backwards in this fashion is the only feasible way of ensuring free-at-frontier prices for fruit and vegetables.

A further improvement on the system used to date is that prices will now be fixed at importer/wholesaler level, rather than at wholesaler/retailer level, so as to ensure that prices are closer to being genuine free-at-frontier prices.

If the entry price for produce from a non-member country is at least 0.5 units of account below the reference price for two consecutive days, a countervailing charge will be levied on imports of this produce from the country concerned save in exceptional circumstances (where a shipment's destination has been definitively fixed, for example).

This countervailing charge will be uniform in all Member States and is payable in addition to the customs duties.

The countervailing charge will be removed or modified if the market situation changes.

The reference prices, the adjustment coefficients and other details - e.g. the criteria for changing the countervailing charge - will be fixed under the Management Committee procedure.

The new regulations will come into force at the end of the current crop year. This means that they will apply from 1 May 1970 for cherries, plums, tomatoes, peaches, dessert grapes, sweet oranges, mandarins, clementines and satsumas and from 1 June 1970 for other produce.

2. Community import arrangements

Article 11(1) of Regulation No. 23 required the Council to decide as to the co-ordination and standardization of import arrangements applied by each Member State to non-member countries. Pending this decision, the individual Member States could continue to make their own import arrangements with non-member countries. The Council has now regularized the situation by adopting

Council Regulation (EEC) No. 2513/69 on the co-ordination and unification of the arrangements applied by the individual Member States to imports of fruit and vegetables from non-member countries.

Subject to Community provisions to the contrary, the following will be prohibited in connection with future imports of fruit and vegetables from non-member countries:

(a) the imposition of charges equivalent in effect to customs duties;

(b) the application of quantitative restrictions or measures with equivalent effect.

Quantitative restrictions on imports of lettuces, endives, beans, melons, dessert grapes, tomatoes, artichokes and apricots can be retained for specified periods, provided of course that these restrictions applied previously.

This provision will apply from 1 March 1970.

Before 1 January 1973 the Council must adopt a general regulation covering outstanding import restrictions.

Provision is made for the introduction of suitable safeguard measures should imports or exports cause disturbances on Community markets.

These safeguard measures will continue to apply to trade with non-member countries until such time as the disturbance or the danger of a disturbance has been removed.

If a situation calling for the introduction of safeguard measures arises, the Commission will decide on the measures to be taken at the request of a Member State or on its own initiative. Its decision will be communicated to the Member States and will take immediate effect. Since quick decisions are essential in such circumstances, the regulation requires the Commission to rule on requests submitted to it within twenty-four hours without reference to the Management Committee. Any Member State which questions the Commission's decision may refer the matter to the Council, which must meet without delay.

3. <u>Implementation of safeguard measures</u>

Provisions for the application of safeguard measures and provisions defining the limits within which the Member States can take preventive action are contained in

Council Regulation (EEC) No. 2514/69 on conditions for the application of safeguard measures in the fruit and vegetables sector.

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The key factors for determining whether the Community market is being seriously disturbed or is in danger of being seriously disturbed by imports or exports had to be clearly specified, account being taken of the influence of trade with non-member countries on Community markets and the special characteristics of these markets.

The following are important factors in assessing the situation:

(a) the actual or potential level of imports or exports;

(b) availabilities on the Community market;

(c) prices on the Community market for domestic produce or the probable trend of these prices, and in particular any tendency towards an unduly sharp drop below or an unduly large increase above the level of the basic price or, in the case of produce for which no basic price has been fixed, the level of previous years' quotations.

If the threatened disturbance can be attributed to imports, the following must also be borne in mind:

(i) quotations on Community markets for produce from non-member countries and in particular any tendency towards an unduly sharp drop in prices;

(ii) quantities which will or might be withdrawn.

The safeguard measures include the suspension of imports or exports and the charging of export levies.

They can only be applied to the extent that is absolutely essential and for as long as is absolutely essential. Allowance is made for the special position of produce already on its way to the Community. The safeguard measures can only be applied to produce being imported from or exported to a non-member country. They can be confined to specified areas and limited to specified qualities, sizes or varieties.

If, following an assessment of the market situation, a Member State decides that safeguard measures are needed on its own territory, it can suspend imports or exports or it can require the deposit of export levies. The Commission must be notified of these preventive measures immediately they have been decided upon. They apply only until such time as the Commission itself takes a decision.

IV. Improvement scheme

1. Apples, pears and peaches

Measures to stabilize the market will not be enough to solve the problems caused by the continued existence of old orchards producing varieties which are no longer in demand. The solution to these

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difficulties lies in action to influence production capacity, which is covered by

> Council Regulation (EEC) No. 2517/69 determining certain measures for improving fruit production in the Community.

It seemed a good idea to provide incentives which would make it easier for growers to take the decision to grub old orchards. The cost would be offset by a subsidy which would be conditional on the grower undertaking not to plant new trees for a given period.

Payment of this subsidy will be a temporary measure for the time being. Applications for the subsidy must be lodged before 1 March 1971. The applicant is required to give a written undertaking to grub the apple, pear or peach trees in question before 1 March 1973 and to refrain from planting new apple, pear or peach trees for a period of five years.

The various grants still being paid by the individual Member States to subsidize new plantings will have to go since they are obviously not compatible with this Community scheme.

The EAGGF will refund 50% of the expenditure incurred by the Member States in implementing this grubbing-up programme.

2. Oranges

The present situation on the orange market meant that provision had to be made for medium- and short-term measures. If the medium-term measures are to be effective, they must form part of a special programme for which the Community will assume part responsibility. With this end in view the Council adopted

> Council Regulation (EEC) No. 2511/69 on special measures to improve the production and marketing of citrus fruit in the Community.

Medium-term measures forming part of a programme and implemented before 31 December 1976 will be subsidized provided they help to promote:

(a) the conversion of existing sweet-orange and mandarin orchards to other varieties, or to other citrus fruit such as satsumas or clementines, which are better suited to consumer demand;

(b) the provision, improvement or extension of sorting, packing, storage and processing facilities.

The provision of processing facilities must not be regarded as a stopgap arrangement to dispose of fruit which cannot be marketed fresh. The processing of sweet oranges and mandarins is more in line with the general trend of consumer demand and is becoming more and more popular in fruit-growing areas outside the Community.

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Before 1 July 1970 the Member States concerned must draw up a plan for the implementation of those measures which seem best suited to achieving the objective in view. The plan must give details of the most important tasks to be accomplished. The preparatory work will be carried out in collaboration with the Commission, which will have the power to make recommendations to the Member States concerned.

Since the changes to be made in the pattern of production could mean excessive losses for many small farmers, special compensation will be paid in certain cases. Farmers whose main crop is sweet oranges and mandarins will receive subsidies provided:

(a) the total area of their holding does not exceed five hectares;

(b) the income from their holding does not exceed the income from two hectares of sweet oranges or mandarins;

(c) at least half the area under sweet oranges and mandarins is converted in one operation;

(d) the conversion affects a minimum of twenty ares.

The smallholder subsidy, amounting to 1 000 units of account for each hectare of oranges and 1 200 units of account for each hectare of mandarins planted with other varieties, will be paid in five annual instalments.

The subsidy will be paid by the Member States and should cover all costs arising from the changeover and the associated compensation to growers. Only a certain proportion of investment expenditure will be incurred by the Member States, a proportion of it being a charge on the beneficiaries.

The Guidance Section of the EAGGF will refund 50% of the expenditure incurred by Member States under the scheme to change the pattern of production and in connection with the additional smallholder subsidy.

The short-term measures will cover a three-year period. They provide for contracts between sellers in producing Member States and buyers in the other Member States, which are to ensure that Community oranges are available on Community markets. These contracts are, however, limited to produce which is liable to be welcome on import markets in the Community.

The conditions to be fulfilled by these contracts as regards varieties and quality classes, minimum quantities and the timing of deliveries will be laid down in accordance with Management Committee procedure.

The Guarantee Section of the EAGGF will help to finance this scheme until 1 June 1974.

Under the regulation Member States will pay sellers who sign contracts of this kind financial compensation ranging from 3 to 5 u.a./100 kg, depending on the variety. This amount will apply for the first year but will be reduced by 25% in 1972/73 and by 50% in 1973/74.

Other short-term measures should help to encourage increased processing of specified varieties of orange. These measures are laid down in

Council Regulation (EEC) No. 2601/69 on special measures to encourage the processing of specified varieties of orange.

Since marketing difficulties within the Community are largely due to the varieties grown in the Community, the processing of varieties for which demand is slight must be stepped up. Until 1 June 1974, then, subsidies will be paid from the Guarantee Section of the EAGGF in respect of additional quantities processed - i.e. quantities over and above the amount usually processed - provided growers sign contracts for this purpose with processors along the lines laid down in the regulation.

The "amount usually processed" from individual holdings will be calculated on the basis of three years' production, beginning with the 1969/70 crop year.

The first contracts between growers and processors will be signed in 1970/71. They must be signed each year before the processing season starts and must specify the quantity to be delivered, the timing of deliveries and the price to the grower.

The appropriate agencies in the Member State concerned must be notified of the contracts and are required to ensure that the contracts are fulfilled in due course.

A minimum price to producers will be fixed for deliveries under contracts of this kind. It will represent the buying-in price plus 10% of the basic price and will be fixed for varieties of orange which, because of their special characteristics, are normally used for processing.

The minimum producer price and the financial compensation referred to below will be fixed before the beginning of each crop year. This will have to be done by 1 February 1970 for the 1969/70 crop year. Implementing provisions and prices will be determined in accordance with Management Committee procedure.

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The Member States will pay compensation to processors who sign these contracts, but the compensation cannot exceed the difference between the minimum producer price and 80% of the price at which processors usually get supplies (which is based on prices for the previous three years).

Compensation will be paid on application once the competent controlling agency is satisfied that the produce has in fact been processed.

Expenditure by the Member States will be refunded from the Guarantee Section of the EAGGF.

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