

Newsletter on the Common Agricultural Policy

Weekly No. 3

February 1967

Proposal for a regulation on
agricultural producers' syndicates
and groupings of such syndicates

Proposal for a directive
on measures to combat the San Jose scale

CONTENTS

	<u>Page</u>
<u>Agricultural producers should have a greater voice in the market</u>	3
I. Farmers to play a bigger role in the operation of the market through voluntary association	3
Production geared to the market	4
Concentration of supply	4
II. Voluntary association	5
Legal form of syndicates; increased responsibility	6
Activities of syndicates; public assistance	6
1. Activities	6
2. Assistance from public funds	7
3. Products covered by syndicates	7
III. Treaty provisions applicable to producers' syndicates	7
Rules on competition	8
Recognition and withdrawal of recognition	8
Why syndicates are needed	8
<u>Commission proposal for measures to combat the San Jose scale</u>	9



Agricultural producers should have a greater voice in the market

I. Farmers to play a bigger role in the operation of the market through voluntary association

As the common market in agriculture will soon be fully established, our EEC farmers must of necessity adjust to the larger economic unit which has been created for them and in the creation of which they themselves have had a hand. With the regulation of the markets in many farm products and the annual fixing of prices for a range of commodities, one phase of the common agricultural policy has almost reached its goal. The changeover from small national agricultural markets to the new EEC market will require large-scale adjustment by our farmers, but this should not be allowed to impede achievement of the further goals of the common agricultural policy. This skeleton building on the verge of completion needs to be properly furnished; farming must settle itself into its spacious rooms and wide corridors without getting lost in the process of moving.

Farming as at present constituted is being largely bypassed by the vigorous developments of the modern economy. It is not organized into companies comparable with those that finance industrial expansion, its markets are not dominated by combines; and it lacks enterprising individuals capable of bringing modern production and marketing methods to the six and a half million or so separate agricultural holdings of one hectare and over (1). As a result, farming's position on the market is growing weaker. This is reflected chiefly in the dwindling proportion of the price of the finished product represented by the cost of raw materials delivered by farmers.

Agriculture must therefore endeavour, as soon as the common market is in operation, to take advantage of the new situation. This can best be done if producers:

- (1) organize in order to have a greater voice in market operations;
- (2) take a bigger part in marketing and selling their produce;
- (3) secure their position on the market.

With a view to ensuring optimum use of capital and labour and to improving incomes in agriculture, the EEC Commission has submitted to the Council a proposal for a regulation on **syndicates** of agricultural producers and **groupings** of such **syndicates**. This may well be the most important regulation for the development of agriculture and the improvement of market structure in a whole series of proposals now being prepared by the Commission. In view of the importance of the proposal we are considering, the Commission hopes that it will be implemented with the constructive co-operation of all those who have a

.../...

(1) Almost 70% of which are holdings of less than 10 hectares. Agriculture accounts for 8% of the gross domestic product of the EEC; industry, with 2.3m. firms, accounts for 45% of GDP.

hand in the organization of the common market in agriculture - Member Governments, parliaments and the agricultural community.

Production geared to the market

The combination of agricultural holdings into producers' syndicates is a sine qua non for improvement of market structure in an agriculture based on the family farm. The Commission's proposal is designed to create a Community framework within which the Member States can promote the establishment of producers' syndicates and the agricultural community can pursue its own efforts to improve the organization of production and the overall supply of agricultural produce.

A short time ago the Council, in a regulation containing supplementary provisions for the common organization of markets in fruit and vegetables, laid down provisions to allow of improvements in the quality of produce, the adaptation of supply to market requirements and, where possible, the guaranteeing of adequate incomes to growers (1). The establishment of producers' syndicates should therefore go a long way towards achieving the aims of Article 39 of the EEC Treaty.

As a logical extension of this regulation, the Commission, in its proposals for the common organization of markets in the final stage of the transition period, has suggested measures to encourage the agricultural bodies involved to bring about a better organization of production, processing and marketing and to improve the quality of produce.

These measures should be designed to improve producers' knowledge of market conditions and to increase the stability of markets.

Concentration of supply

Agriculture in the EEC is faced with the need to adapt production and sales to the requirements of a demand which has been sharply concentrated in recent years. If the supply side is to be concentrated on lines of guaranteed quality, and if dealers and processors are to be assured of regular deliveries, often on specified dates, then new forms of organization are required in an agriculture made up largely of family farms - and often small farms at that. Farming in the member countries has little time left to develop these new patterns of supply if it is not to be overtaken by extraneous developments in the processing industry tending in the same direction.

The salient features of the supply of agricultural produce are at present the large number of producers, the relatively small size of production units, and the production of a great number of more or less homogeneous products. As a result, supplies are very fragmented and do not always come up to the requirements of a modern market. The aim

.../...

(1) Regulation No. 159/66/CEE.

of the Commission's proposal is to facilitate the development of the agricultural sector of the economy by encouraging concentration, without offending against the principle of free competition. Rural trade and co-operatives will be able to profit from the formation of producers' syndicates. For example, dealers will be largely relieved of the costly and time-consuming task of making up consignments to suit the market if they can take over lots from the producers.

The main weakness of agricultural marketing co-operatives has been that the lack of loyalty among their members prevented them from building up a position on the market commensurate with the size of their membership. This weakness will be removed by the Commission's proposal in that the members of a producers' syndicate will be obliged to deliver the total output of the products under contract.

If it is to be possible, within the meaning of the Commission's proposal, for an agricultural co-operative and a producers' syndicate to be one and the same undertaking, the co-operatives will have to establish direct links with the production side. If dealers and co-operatives are to take on the function of producers' syndicates, they can no longer confine themselves to purely distributive activities but must also direct their members' production and assume responsibility for standardizing quality. This is the only way in which marketing can be put on a sound basis - the organization marketing the produce must have an influence, which it has not had up to the present, on the volume of supplies and the pattern of production.

The Commission's regulation, then, is not intended to replace existing organizations; on the contrary, it consciously relies on existing organizations which have been tried and tested and is designed to utilize their know-how.

There have been remarkable changes in final demand over recent years. In step with the economic development that has brought about a general rise in living standards, the demands of consumers have been modified. Consumers are now asking for increasing quantities of prepared and processed commodities and for fresh produce all the year round; the trend of demand is for consistently high quality.

With a view to satisfying consumer demand, the Commission's proposal is aimed at ensuring constant and regular supplies of produce of a given uniform quality in sufficient quantities and at the most stable prices possible.

II. Voluntary association

The producer joins a producers' syndicate voluntarily. The rules of any such syndicate, or of a grouping of syndicates, must contain provisions guaranteeing that members who wish to withdraw are free to do so, though they will be required to give six months' notice.

.../...

Since producers' syndicates may operate across national frontiers, there must be no membership restrictions on grounds of nationality.

Legal form of syndicates; increased responsibility

The legal form taken by a producers' syndicate will depend on the law in each Member State. The syndicate may have legal personality, but this is not essential.

Responsibility for the conduct of business in the syndicate or grouping of syndicates lies with the producers themselves. Indeed the structure of the syndicate should be such as will increase the business responsibility of producers and improve their business acumen. New market outlets should be developed.

Activities of syndicates; public assistance

1. Activities

Under Regulation No. 26 (1) on the application of certain rules of competition to the production of, and trade in, agricultural products, the Council decided to give special consideration to farmers' associations mainly concerned with the production and joint marketing of agricultural produce or the use of joint storage, treatment or processing facilities.

Producers' syndicates seeking official recognition must conform to the following general conditions:

- (i) They must not jeopardize attainment of the objectives of Article 39 of the Treaty of Rome in activities in respect of which they seek recognition;
- (ii) They must abide by joint rules for the production and marketing of agricultural produce up to the first stage of distribution;
- (iii) They must, in accordance with their joint rules, be in a position to store, sort, package and otherwise prepare agricultural produce for sale.

To avoid the danger of combinations in restraint of competition, a syndicate may market no more than 5% of total EEC output of each product, unless otherwise decided by the Council on a proposal of the Commission. Where a syndicate markets more than 5%, official recognition will be withheld. All discrimination between producers and producers' syndicates within the EEC, particularly on grounds of nationality or domicile, must be eliminated over the whole range of their activities.

.../...

(1) Official gazette No. 30, 20 April 1962, p.993.

2. Assistance from public funds

Since agriculture does not as a rule dispose of sufficient capital reserves and funds to facilitate the establishment of producers' syndicates, temporary assistance from public funds should be forthcoming at the outset.

For this reason, Member States are authorized to grant subsidies to recognized syndicates and groupings in the first three years following official recognition to help them find their feet and to promote their activities.

The amount of such assistance must not exceed, in the first year 3%, in the second 2% and in the third 1% of the value of the produce marketed and covered by official recognition. The value will be calculated each year on a flat-rate basis, account being taken of:

- (i) Average output marketed by producers during the three calendar years before they joined the syndicate;
- (ii) Average price obtained by producers for this produce over the same period.

Furthermore, in the first five years after recognition, the Member States may grant subsidies to recognized syndicates and groupings for investments serving to improve production conditions, joint sales, storage, sorting, packaging and other preparations for sale. These subsidies may amount to:

- (a) 40% of sums invested in new construction or in extension or modernization of existing structures, etc.;
- (b) 20% of sums invested in machinery, vehicles, equipment and the like.

These investments must be for the acquisition of movable or fixed assets which are intended to remain the property of the syndicate or grouping or which will be jointly owned by members.

3. Products covered by syndicates

Basically, the proposed regulation covers all products listed in Annex II to the EEC Treaty which have not undergone processing before leaving the farm, but it also applies to butter, cheese and wine. The products concerned are given in a list annexed to the proposal. Fruit and vegetables are excluded, however, since a special regulation has already been made for them.

III. Treaty provisions applicable to producers' syndicates

No monies from the European Agricultural Guidance and Guarantee Fund may be made available for the establishment of producers' syndicates or for their operations.

.../...

Rules on competition

Notwithstanding Regulation No. 26 and other provisions based on Article 43 of the EEC Treaty and making the Treaty's rules of competition applicable to the production of and trade in agricultural commodities, Article 93(3) of the Treaty does not reach these subsidies provided they do not exceed the limits stated.

The Commission is to be notified of these subsidies by the Member States in a report submitted at the end of each financial year. By virtue of recognition under this regulation and as long as such recognition lasts, Article 85(1) of the Treaty will not be applicable to agreements, decisions or concerted practices through which producers' syndicates and groupings are formed.

Recognition and withdrawal of recognition

Member States must recognize syndicates and groupings which make proper application and meet the specified conditions and whose activities cover one or more of the products included in the regulation.

The recognition of a syndicate or grouping will be rescinded if the requisite conditions are no longer complied with, if recognition was accorded on the basis of inaccurate information, or if recognition has been used for fraudulent purposes.

Once these syndicates or groupings begin to operate on markets, they will come within the reach of the rules of competition (as regards stages both upstream and downstream) laid down in Council Regulation No. 26.

Why syndicates are needed

The need for producers' syndicates does not arise only from the economic considerations that joint handling and processing of products is in line with present-day technological advance and rationalization and that it can stimulate the regional development of whole areas. From the common agricultural policy angle too, a variety of reasons militate in favour of joint ventures of this kind. Everywhere in the Member States we see similar projects being put in hand, involving numerous vertical and horizontal agreements and hence the risk of distortion of competition in the common market if they are not carried out in accordance with common rules. This virtually obliged the Commission to submit proposals to the Council for common rules on producers' syndicates.

By 31 December 1969 at latest the Commission will examine, on the basis of the lessons learned and the experience gained in implementing this regulation, whether its provisions should be retained as they are or amended.

.../...

Commission proposal for measures to combat the San Jose scale

A short time ago the EEC Commission submitted to the Council proposals for two directives on the control of potato wart and the potato-root eelworm.

It has now followed these up with a further proposed directive on the San Jose scale. Here, the Commission is again acting on the wishes expressed by the European Parliament and the Economic and Social Committee when they discussed a Council directive on measures to prevent plant pests being introduced into Member States. Both bodies had suggested not only rules covering trade in plants and plant products between the Member States but also common rules for combating these pests.

The San Jose scale (Quadraspidiotus perniciosus Comst.) is a destructive animal pest attacking the majority of woody dicotyledons, which include fruit trees and bushes but also broad-leaved forest trees, but it has no effect on conifers. Here the directive takes over the list of host plants drawn up by the European and Mediterranean Plant Protection Organization. The scale is found in some member countries and is one of the pests covered by the above-mentioned quarantine directive.

The directive lays down measures which are binding on the Member States. The latter are free to issue supplementary or stricter rules to combat the San Jose scale or prevent it spreading.

The minimum measures are as follows:

1. If infection is noted, the Member States must delimit the infected area and a buffer zone around it. In both of these the host plants must be effectively treated. In the buffer zone there must also be regular checks to see whether any infection is present.
2. In nurseries - and this means all places where plants are grown with a view to replanting - all infected plants must be destroyed, for it is here that the danger of the infection spreading is greatest.
3. All other plants in the infected area which are infected or suspect (fruit trees, say) must be treated in such a way that the fruit taken from them is free of the agent of infection.
4. All plants growing in the area and not themselves infected may only be replanted in the area or taken out of it when they have been treated in such a way that any scale present is destroyed.
5. It is forbidden to be in possession of the San Jose scale.
6. If the San Jose scale should be found in plants or fruit entering into trade, such plants or fruit must be destroyed. The non-infected remainder of the lot must be treated in such a way that any scale present is destroyed.

.../...

7. Member States can allow exceptions to the above rules, but not before ensuring that this will have no adverse effect on control of the pest and will not introduce the risk of its spreading.

- (a) Exceptions to rules 2-6 may be made for scientific purposes, tests and breeding projects;
- (b) As an exception to rules 3 and 6, trade in the infected area or immediate processing of the infected fruit - for instance as preserves or jam - can be allowed.

These measures of prevention or eradication may only be withdrawn when it has been ascertained that the scale is no longer present.

The proposed directive will require the Member States to bring their laws and regulations into line within a year of its publication.

The Commission's proposal is the result of close co-operation with government experts in the Member States. The relevant trade organizations at EEC level have also been consulted and have raised no real objections.
