

Newsletter on the Common Agricultural Policy

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The Commission of the European Communities recently submitted a report to the Council which puts forward a number of proposals for attaining a properly organized common market in fruit and vegetables.

This Newsletter reviews the existing arrangements and then outlines the Commission's approach and the resultant proposals.

It also discusses the main points of a proposal on trade policy for products processed from fruit and vegetables.

1. ESSENTIAL FEATURES OF A PROPERLY ORGANIZED COMMON MARKET  
IN FRUIT AND VEGETABLES

General

In addition to good soil and a favourable climate, the production of fruit and vegetables requires above all a large input of work and other means of production; in return, the yields per acre are very high. We therefore find fruit and vegetable growing on small farms without much capital, striving to make a reasonable income. And then we also find - especially in the neighbourhood of the consumer markets - large specialized holdings which are very well equipped. Channels of distribution are just as diverse, varying from the farmer bringing his produce to the weekly market himself to modern marketing organizations, and from dispatch in crates to growing contracts with processors.

The characteristic feature of the market is that a large number of growers produce a range of many different varieties of fruit and vegetables which, as far as the consumer is concerned, are largely interchangeable. Furthermore, the product is perishable, highly susceptible to the weather and of limited suitability for storage, while the buyer is critical, can make his choice at any time and is not obliged to buy a specific product. The consequence of all this is that it is not easy for the producer to get a clear picture of his market. Prices vary considerable from region to region: they may well be falling sharply on one market while produce is in short supply on another. The aim must therefore be to strike a balance between the quantity and selection of goods on offer and in demand.

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## I. Common quality standards

The standardization of supply is a major means of increasing market participants' knowledge of market conditions. For this purpose, common quality standards were established in 1962 (Regulation No. 23) relating to quality, sizing and presentation. These standards are designed in the first place to create uniform conditions of competition, whereby regional advantages of location stemming from the climate and consumer preferences can be fully exploited through specialization. Furthermore, the application of the quality standards prevents products of inadequate quality from being put on the market.

There are normally three standard qualities - Extra, Class I and Class II. For a number of products, to allow standardization on the domestic market, a supplementary Class III has been introduced for lots which cannot be included in a higher category but nevertheless are up to standards which satisfy consumers' requirements and at the same time are of considerable importance to producers. The standards have been gradually introduced since 1 July 1962 and with a few exceptions have been fully applicable since 1 January 1967 to trade between member countries and trade within any single member country. They also apply to products exported to or imported from non-member countries. The standards are applicable at all stages of distribution, so that the consumer too can benefit from standardization.

For all quality standards, marking is also obligatory. On all packages must be marked: name and address or identifying mark of the packer or consignor; nature of the goods; origin of the goods and the commercial specification (class, size or number of items). The Member States are responsible for enforcing compliance with the quality standards by inspection. It must be said that inspection is still not carried out effectively everywhere. The Commission is now pressing for an inspection which is as efficacious as possible. It will seek to play a co-ordinating role with a view to the eventual establishment, if need be, of a European Office to ensure that inspection is uniform.

The introduction of the quality standards made possible the gradual liberalization of trade between the member countries. 1 July 1968 saw the completion of this process, entailing the removal of quantitative restrictions and measures having equivalent effect and the elimination of the member countries' minimum price arrangements. To remedy the possible consequences of the disappearance of these protective measures, the Member

States were allowed for a transition period to close their frontiers to certain products, on specific conditions. This facility has only been used to a very limited extent.

## II. Growers' associations

The growers' associations are another means of improving knowledge of market conditions. Their purpose is to promote the concentration of supply and the regulation of producer prices for fruit and vegetable products. They draw the attention of the individual grower to those crops which, given the market situation, are most likely to meet probable requirements. They are also involved in the application of the quality standards. Their other functions include providing information, making available sorting and packing stations and carrying out inspections. For the concentration of supply, they create selling facilities - large markets and auction concerns. Finally, they can operate as regulatory agencies; further details on this point are given in the section on intervention. Growers may be granted subsidies from the Member States for setting up associations and meeting initial operating costs.

The measures described under I and II have still not proved sufficient to prevent the market from being oversupplied at times. For a number of products (apples, pears, peaches) this is due to structural overproduction, for others it is caused by excessive concentration of supply over time. In the case of products in structural overproduction, measures must be taken at the growing stage - for instance, by terminating (direct or indirect) support for the planting of new orchards and by making grants for uprooting apple, pear and peach orchards on condition that no new orchards of these types are planted for a certain period.

With regard to the quantities marketed, the Commission feels that it is proper, if the supply of certain products exceeds demand, to reserve the market exclusively for better-quality products by forbidding the marketing of products meeting the requirements of the lowest class of the common quality standards. Such a ban would have to be definitive for products in overproduction (taking the form of an amendment to the minimum size specified in the standards or of a ban on marketing products for direct consumption which do not conform to Extra, Class I or Class II requirements; processing would remain permissible, of course). For other products, the measure should be temporary (taking the form of a ban on marketing Class III products and/or products of a lower size class than specified in the standards).

### III. Intervention on domestic markets

For a number of products with a high incidence on the income of many growers it proved impossible to achieve a reasonable producer price without intervention on the market. Intervention arrangements were made for these products in 1966 (Regulation No. 159/66/CEE).

#### (a) Intervention by the growers' associations

If a growers' association has been set up to market a product, it can fix a reserve price below which it will not put its members' produce on sale. The Member States may fix a ceiling for this reserve price. The growers' associations can compensate their members for unsold quantities which conform to the quality standards. The cost of this is borne by an intervention fund set up by the member growers and financed by levies on quantities offered for sale. The Member States may grant a subsidy to cover any teething troubles experienced by growers' associations when they begin to regulate the markets in this way.

#### (b) Intervention by the Member States

For the products listed in the footnote to this page, the Council fixes basic prices calculated on lowest average prices over the previous three marketing years. Concurrently, the Council fixes buying-in prices for these products. These are:

- (i) for cauliflowers and tomatoes, between 40% and 45% of the basic price;
- (ii) for apples and pears, between 50% and 55% of the basic price;
- (iii) for the other products, between 60% and 70% of the basic price.

The basic prices are designed to help stabilize market prices, but they must not lead to the formation of structural surpluses in the Community.

The Member States fix the buying-in prices for their own markets. These may deviate from the level fixed by the Council

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<sup>1</sup> Cauliflowers, tomatoes, oranges, mandarins, lemons, dessert grapes, apples, pears and peaches.

but must not be more than 70% of the basic price. The commercial specifications - such as variety or type, quality class, sizing and packaging - of products for which basic and buying-in prices are fixed are precisely laid down. Adjustment coefficients are fixed for products whose specifications differ from those of the products to which the basic and buying-in prices relate.

A Member State can finance intervention by growers' associations where there is a "crisis" on the market, i.e. if for three consecutive market days the price remains below the buying-in price plus 15% of the basic price. The Member State can then grant growers' associations which intervene in the market under the reserve price arrangements compensation equal to the value of the quantities taken out of the market during the crisis. The basis for calculating this is the buying-in price plus 5% of the basic price. Not more than 90% of the expenditure resulting from payments to producers may be refunded.

If the crisis is aggravated and market prices are lower than the buying-in price for three consecutive market days, the Member States, operating through the agencies designated for the purpose, are themselves authorized to purchase, at the buying-in price, such products as are offered to them. Figures showing quantities withdrawn from the market and the cost of market intervention in 1967/68 and 1968/69 are annexed to this Newsletter.

Experience with the arrangements introduced on 1 January 1967 has revealed a number of shortcomings.

1. The optional nature of the arrangement, whereby certain countries can refrain from introducing market stabilization measures at all or the various Member States can fix buying-in prices at divergent levels, distorts the conditions of competition between producers in the Member States. Furthermore, market disturbances cannot be remedied if a crisis or serious crisis is declared too late or if the intervention system is not applied at all. The Commission therefore proposes that:

- (a) the buying-in prices fixed by the Council should be valid for all Member States;
- (b) the existence of a crisis or serious crisis, leading to adoption of intervention measures, should be established at Community level;
- (c) it should be made obligatory for all Member States to grant financial compensation to growers' associations which take products out of the market and to buy in products offered to them when there is a serious crisis.

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2. The Member States only grant compensation for expenditure by growers' associations on rehabilitating the market if a crisis situation is formally declared to exist on the market. The result is that the growers' associations often go into action late, since they first wait for a crisis to be declared. In the event of a serious market disturbance, what is more, the charges incurred by the growers' associations are very heavy since at most only 90% of their expenditure on regulating the market is reimbursed. In this connection, the Commission wishes to authorize the growers' associations to act as soon as action is warranted by the market situation. And their expenses should be reimbursed in full.

3. In the present system, the buying-in price is fixed for a product with the same commercial specifications as the one for which the basic price is established. This is always a Class I product. Owing to the lack of adequate data, the derived prices for the other quality classes do not always conform to reality, so that in practice Class I produce is sometimes offered for buying-in while lower-quality produce is put on the market. This conflicts with the purpose of the arrangement, which is to take poorer-quality produce out of the market beforehand so that better prices can be obtained for the better-quality produce remaining on the market. The Commission wishes to make an improvement here by taking the buying-in prices for Class II products as the basis for calculating all compensation for taking out of the market and intervention, even if the produce taken out of the market or bought in as a result of intervention measures is of better quality.

#### IV. Disposal of products taken out of the market

It is very difficult to find a suitable use for products taken out of the market or bought in by Member States. The intervention regulation specifies that they must not be disposed of in such a way as to hamper normal sales. The Commission has amplified this by specifying the following possible means of disposal:

- (a) free distribution to charitable institutions and foundations and to persons recognized by law as entitled to public assistance - particularly those with inadequate means of subsistence;
- (b) processing to alcohol with a strength of more than 80%, obtained by direct distillation of the product;
- (c) use as animal feed, with or without processing;
- (d) use for non-food purposes.

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Although the Member States have tried to dispose of products in one or other of these ways, in most cases it has proved impossible to do anything but destroy them. One of the reasons for this is that the goods in question are perishable. The Commission hopes to put an end to this unsatisfactory situation by:

- (i) allowing fresh products to be processed as well, with a view to free distribution of the processed products to certain sections of the community;
- (ii) having the EAGGF finance expenditure on processing and expenditure on the free distribution of fresh or processed products;
- (iii) promoting the use of these products on the farm itself - if it is expected that the quantities affected by intervention measures will be larger than can be disposed of by permissible means - by making compensatory payments to producers who refrain from delivering their products to the growers' associations or to the intervention agency and who undertake not to harvest with a view to selling their crop or at any event not to market the products concerned.

#### V. Arrangements with regard to non-member countries

In the first place, the common customs tariff is applicable to products imported from non-member countries into the Community. Furthermore, fruit and vegetables from non-member countries must comply with the common quality standards or at least equivalent standards and must be marked in the same way as Community produce.

A system of reference prices and countervailing charges has been introduced to protect the common market against supplies from outside at abnormally low prices. The reference prices are fixed at a level which ensures that imports do not cause a substantial and long-term reduction of the price level in the common market. If products are imported at prices below the reference price, a countervailing charge - equal to the difference between the reference price and the price of the imported product at entry - is imposed. This countervailing charge is the same for all Member States but may be confined to imports from specific countries if the entry price is low only in respect of imports from these countries.

Alongside the application of the provisions of the common customs tariff and of the measures applying the reference price system, the Member States can, with regard to non-member countries, introduce any domestic measures which they deem justified by the



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situation of their markets, provided such measures do not conflict with their international obligations. Since such measures by the individual States - or, in other words, the absence of a common trade policy - can lead to distortion of competition, the Commission is pressing for an early Council decision on the co-ordination and unification of import arrangements applied by the Member States; the Council has been studying a proposal to this effect since as long ago as the end of 1966. The Council should also authorize the Commission to take steps at short notice against disturbances from outside.

Products for which common quality standards have been established may only be exported to non-member countries if they are Extra, Class I or Class II products. It is for the exporting Member State to check on this.

For the export of certain products,<sup>+</sup> the Member States can make refunds where necessary to safeguard the participation of the Community in international trade. This refund may not exceed the customs duty in the common customs tariff plus, where appropriate, the countervailing import charges. The grant of the refunds may be justified by distortion of conditions of competition on markets of importance to the Community resulting from abnormal trade practices on the part of one or more non-member countries, or by the fact that measures to stabilize the common market are having an unfavourable effect on the Community's participation in international trade.

This system is valid only during the transition period. The Commission considers that from 1 January 1970 refunds will have to be granted in accordance with a Community procedure. It wishes to limit refunds to fresh fruit and fresh vegetables whose exportation is of economic importance to the Community.

### Conclusion

The present Commission proposals give form and substance to the statement regarding the horticultural industry in the Memorandum on the Reform of Agriculture in the European Economic Community. The Commission considers that acceptance of its suggestions will resolve the industry's main problems.

Finally, it draws attention to the forthcoming submission to the Council of a separate report on a specific problem, the sale of oranges grown in the Community.

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<sup>+</sup> Oranges, mandarins, lemons, dessert grapes, almonds, walnuts, chestnuts, hazelnuts and peaches, together with certain processed products.

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2. TRADE POLICY FOR PRODUCTS PROCESSED FROM FRUIT AND VEGETABLES

The Commission has submitted to the Council a proposal regarding unification of the import arrangements now in force in the individual Member States for products processed from fruit and vegetables.

This proposal makes provision, as a general rule, for the liberalization of imports of products originating in non-member countries.

However, a reserve price would be fixed for a limited number of products for which offers on the world market at abnormally low prices cannot be discounted. These products are tinned mushrooms, tomatoes, asparagus, peas, apricots, peaches and pineapples.

In fixing the reserve price, allowance would have to be made for the ruling import prices in normal and traditional trade and the market prices obtaining in major importing countries outside the Community. In no case should the reserve price restrict imports from non-member countries more than the measures applied hitherto by the Member States at national level.

Imports of products for which there is a reserve price would be subject to a licensing system. Licences would be issued to any interested party who declares his readiness to respect the reserve price when importing goods.

The importer would also be required to make a deposit as guaranteed for the undertakings into which he has entered. Should he fail to respect the reserve price, he would forfeit his deposit.

The proposal also includes a safeguard clause allowing ad hoc measures to be introduced in the event of serious market disturbances arising from the import and export trend of these products.

In addition to the proposal for a basic regulation on trade policy for these products, the Commission has already submitted proposals to the Council with regard to the level of the reserve price for a number of products.

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AppendixQUANTITIES TAKEN OUT OF THE MARKET AND EXPENDITURE INVOLVEDA. 1967/68Quantities taken out of the market (kg)

	BELGIUM	FRANCE	ITALY	NETHERLANDS	EEC	% of Community output intended for the market
Cauliflowers	1 077 714	23 700 000	11 812 978	862 151	37 452 843	2.9
Tomatoes	-	2 010 000	-	-	2 010 000	0.04
Pears	-	487 000	-	-	487 000	0.025
Apples	4 273 955	118 700 000	167 106 994	9 273 721	299 354 670	5.7
Oranges	-	-	31 724 320	-	31 724 320	2.6
Total	5 351 669	144 897 000	210 644 292	10 135 872	371 028 833	2.6

Estimated expenditure chargeable to EAGGF (u.a.)

	BELGIUM	FRANCE	ITALY	NETHERLANDS	EEC	Total (excl. Italy)
Cauliflowers	32 755	811 775	404 156	18 776	1 267 462	863 306
Tomatoes	-	122 000	-	-	122 000	122 000
Pears	-	34 000	-	-	34 000	34 000
Apples	232 058	8 390 000	13 330 944	594 047	22 466 049	9 135 105
Oranges	-	-	3 299 104	-	3 299 104	-
Total	264 813	9 276 775	17 034 204	612 823	27 188 615	10 154 411

B. 1968/69 (provisional figures to 31 December 1968)

Quantities taken out of the market (kg)

	BELGIUM	FRANCE	ITALY	NETHERLANDS	EEC	% of Community output intended for the market <sup>1</sup>
Cauliflowers	-	5 598 000	-	-	5 598 000	0.4
Tomatoes	-	1 880 000	-	-	1 880 000	0.04
Peaches	-	82 644 000	17 640 266	-	100 284 266	5.4
Pears	20 214 089	55 007 000	50 394 913	57 881 000	183 497 002	8.1
Apples	586 860	15 935 000	-	-	16 521 860	0.35
<sup>1</sup> Estimate						

Estimated expenditure chargeable to EAGGF (u.a.)

	BELGIUM	FRANCE (estimate)	ITALY	NETHERLANDS	EEC	Total (excl. Italy)
Cauliflowers	-	223 920	-	-	223 920	223 920
Tomatoes	-	75 500	-	-	75 500	75 500
Peaches (packaged)	-	7 600 000	1 242 944 14 625	-	8 842 944	7 600 000
Pears (packaged)	927 740	3 342 000	2 575 253 18 297	2 490 598	9 335 591	6 760 338
Apples	20 529	637 400	-	-	657 929	657 929
Total (packaged)	948 269	11 878 820	3 818 197 32 922	2 490 598	19 135 884 32 922	15 317 687