

# Agrosynergie

Groupement Européen d'Intérêt Economique

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Evaluations fruit and vegetables

## Evaluation of withdrawals and crisis management in fruit and vegetable sector

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### Short summary

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## 1. EVALUATION CONTEXT

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This study is part of the evaluation of the Fruit and Vegetable (F&V) Common Market Organisation (CMO). The aim of the study is to provide an assessment of the impact of crisis management measures implemented in the F&V sector, and of withdrawals in particular.

The evaluation covers the period following the coming into force of Council Regulation (EC) 2200/96 and includes a comparison with the period before the 1996 reform (1991-1996).

The evaluation is extended to the EU 25 area (EU 15 until 2004).

## 2. REGULATORY FRAMEWORK

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The F&V CMO, including crisis management measures, in particular the withdrawals tool, was introduced in 1972 by Council Regulation (EEC) 1035/72, with the aim of enabling the sector to cope with serious market disruptions deriving from production surpluses.

In 1996 Council Regulation (EC) 2200/96 reformed the F&V CMO and made substantial changes to the withdrawal regime. The changes introduced by the reform included growing importance ascribed to Producer Organisations (POs), which became the main organisations responsible for dealing with surplus crises. The withdrawal mechanism also underwent significant changes.

The measures introduced with Council Regulation (EC) 2200/96 were implemented with two regulations: Commission Regulation (EC) 659/97, subsequently revoked by Commission Regulation (EC) 103/04.

## 3. METHODOLOGY

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The evaluation combines quantitative analysis - via modelling and other quantitative methods - with the collection and analysis of qualitative data gathered through deep interviews conducted with selected witnesses chosen among sector stakeholders.

## 4. EVALUATION RESULTS

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The study is structured according to four themes:

- market stability
- producers' income
- the environment
- management and efficiency

### 4.1 Market stability

#### Impact on the level and variability of prices and quantities

Using a reference model of market equilibrium and a series of simplifying assumptions, we estimated the maximum possible effect on market stability that could be attributed to the withdrawal mechanism over the period 1989-2005. The results led to the following conclusions:

- Withdrawals have been a non-negligible phenomenon for many products, although their incidence fell substantially after the 1996 reform.
- In general, withdrawals have contributed to the stabilisation of quantities marketed, although results vary considerably across countries and commodities, suggesting that there have also been cases when withdrawals have not necessarily been effected during production peaks (especially in the pre-reform period).
- In terms of price levels, withdrawals may have contributed to keeping average prices above the level that they would otherwise have reached, especially in the pre-reform period.

- In terms of price stabilisation, our analysis has shown that withdrawals may have contributed to reducing price variability, especially in the post-reform period. Some evidence of the opposite effect (that is, increased price variability) in the pre-reform period suggests that, in those cases, withdrawals might have responded to incentives other than that of simply avoiding excessive price drops.
- However, due to the limited time span of the analysis and the number of maintained assumptions, there is only indirect support for the overall judgement of the effectiveness of withdrawals in achieving price stability.
- Although the presence of processing aids might have contributed to reducing the amount of withdrawals, no sufficient evidence has been found to support the hypothesis of a significant interference between the two policies.

### **Intensity of the phenomenon**

The analysis showed that the CMO reform of 1996 represented a radical change in the intensity of the phenomenon, which was higher in the pre-reform period. Given that it is unlikely that other changes to the structure of the sector might have occurred in such a short time span, we may conclude that the reform has indeed modified the actions of F&V producers in making a less intense use of withdrawals.

### **Possible creation of structural surpluses**

None of the two possible sources of incentives for the creation of structural surpluses, namely the risk-reducing effect of withdrawals and the price-like incentive determined by the presence of Community Withdrawal Compensation (CWC), is likely to have been relevant in the post-reform period, therefore withdrawals cannot be considered as providing an alternative outlet to the market. The possibility remains, nonetheless, especially for those sectors where production is highly coordinated, that the existence of CWC might create an incentive for planning higher production.

### **Compatibility with other relevant Community policies**

The analysis focused on general principles applied by the Community on the subject of in-kind food aid, and showed that withdrawn quantities exported for free to third countries are not such as to distort their internal markets.

### **Destination of withdrawn products**

The analysis revealed that destruction has been the main outlet for withdrawn products, receiving from a minimum of 55% to more than 80% of the total over the years. Coupled with the fact that the incidence of withdrawals has been rather limited compared with the overall size of the markets in question, this leads us to conclude that:

- in the post-reform period the aim of not disturbing the regular functioning of the fresh and processed products' markets has largely been achieved by current regulation;
- the objective of minimising the destruction of withdrawn products has not been achieved, as it has been the most common destination in both pre- and post-reform periods.

## **4.2 Producers' income**

### **Impact on producers' income**

For oranges, apples, cauliflowers, tomatoes in various regions of Spain, France, the Netherlands and Italy, accounting data from the FADN<sup>1</sup> sample of farms were used to calculate hypothetical farm incomes in the absence of withdrawals, to be compared with actual incomes. The results did not make it possible to draw homogenous conclusions, and should be evaluated with caution due to the limitations in terms of projected prices and FADN sample representativeness. Nevertheless:

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<sup>1</sup> Farm Accountancy Data Network (FADN) is an instrument for evaluating the income of agricultural holdings and the impact of the Common Agricultural Policy

- a generally higher positive impact of withdrawals on income levels seemed to result prior to 1996 when compared with the post-reform period (which is not surprising taking into account the higher incidence of withdrawals in the pre-reform period);
- in the post-reform period the impact appeared to be larger than before only in Murcia for tomatoes and, persistently, in Cataluña for apples;
- the variability of income may have been influenced by other factors, possibly linked to the production of other crops.

In conclusion we may say that, due to the limitations of the analysis and the non-homogenous results, no ultimate judgement on the effectiveness of withdrawals in terms of income stabilisation can be drawn.

### **Other measures adopted to cope with short-term surplus crises**

The survey revealed that a wide array of actions were used by POs as an alternative or additions to product withdrawals, and they were part of a general strategy involving their synergistic and/or complementary use aimed, on the one hand, at sustaining demand and, on the other, reducing supply pressure in the EU market by exploring alternative outlets.

- Improved marketing was the most frequently adopted measure aimed at increasing demand.
- Diversification of varieties was the most frequently used strategy to reduce supply pressure.

These measures are likely to have had positive results on producers' income stability, particularly for those belonging to POs. However, the lack of quantitative information made it impossible to evaluate their actual impact.

## **4.3 The environment**

### **Existence and appropriateness of “national frameworks” and of specific operating manuals and procedures**

Our survey revealed that:

- Community regulations do not provide specific criteria, parameters or indicators in order to ensure environmental protection for the two destruction practices allowed: biodegradation and composting.
- Only 3 of the 25 EU Member States (MS) drafted “*national frameworks to prevent environmental damage during operations to dispose of withdrawn products*” that were deemed to be satisfactory by the Commission; for another 11 MS the “national framework” has not yet been deemed satisfactory; the remaining eleven MS did not submit any specific “national framework”.

Combining the results of the analysis by MS on the appropriateness of “National frameworks” with the relevance of quantities destroyed by each MS in the period 1997-2005, it can be seen that only in France have specific provisions and regulations been issued. On the other hand, for Italy, Germany, United Kingdom, Greece and Portugal, all of which have resorted to product destruction in large quantities, national frameworks were deemed to be inappropriate by the Commission.

Moreover, the specific legislative and administrative survey we conducted in France, Italy, Spain and the Netherlands, revealed that different regulatory approaches have resulted in national provisions that could be insufficient to ensure that environmental damage is not caused by the disposal of withdrawn F&V products.

It should also be pointed out that since 2005, following the implementation of Commission Regulation (EC) 103/04, the MS considered (except for the Netherlands), drafted new and more detailed procedures and manuals.

### **Organisational level**

The control scheme and checks adopted by MS for withdrawal and disposal operations appeared to be appropriate. This picture emerged from the national procedures we have analysed for MS included in the case studies, and from the substantial lack of criticism reported by Commission audits conducted in several areas.

## **Conclusion on the aim of preventing environmental damage caused by the disposal of withdrawn products**

The above-mentioned findings, as a whole, lead us to conclude that in the observed period (1997-2005) at the Community level this objective was only partially achieved.

### **4.4 Management and efficiency**

#### **Expenditure efficiency**

Together with the decline in importance of withdrawals, caused by the CMO reform of 1996, the efficiency of withdrawals budgetary expenditure in reducing price and income variability also appears to have changed over the years.

While withdrawals seemed to be efficient in reducing price and income variability for the products examined (peaches, citrus, apples, cauliflowers), such efficiency seems to have fallen (higher costs for the same price variability reduction) after the CMO reform, although the evidence is not strong enough to allow us to draw a general conclusion. Due to the limits of the present analysis (dataset used, information obtained from the price and income analysis), these results should be viewed with due caution.

#### **Financial coherence**

Withdrawals seem to be in line with the expenses of similar measures adopted within the Common Agricultural Policy (CAP) framework, in particular with:

- the average budgetary cost of wine distillation (considered as being similar to withdrawals in terms of its goals and tools);
- the budgetary costs of processing aid for peaches, pears and citrus (weighted by volume of products).

It should be emphasised that this conclusion is valid for the comparisons made, and cannot be deemed as an indication of absolute cost efficiency.

#### **Management complexity**

Administrative simplification - which was one of the objectives of the CMO reform - does not appear to have been achieved, as the general perception of interviewed selected professionals, involved in the management of withdrawal operations, is that withdrawals are still a rather burdensome tool in administrative terms.

#### **Alternative measures to cope with short term surplus crises**

Among the policy options to assist farmers in managing risks, support for income insurance does not appear to be potentially effective in stabilising F&V producers' income, given the nature of such production and the lack of active futures markets to hedge the price component of income variability. Other possible risk management tools, such as those based on the use of financial derivatives, might have a better chance, although their use, particularly in the EU, is still limited.

Our analysis revealed that some POs have already effectively integrated risk-reducing activities in their activities, a result that has certainly been facilitated by the 1996 reform and that points to the value of increasing the PO's role in this area. However, while withdrawals would contribute to price stabilisation for all producers, the use of other risk management activities by POs would particularly benefit their members.

The analysis also showed that the coherence of the current withdrawal scheme in relation to the reformed CAP is rather poor, given that it does not achieve the objectives of stronger market orientation and high environmental protection.

Combining all these findings, we may conclude that potential new measures, which might be introduced to improve short-term crisis management in the F&V sector, should be based on:

- strengthening and broadening the role of POs;
- broadening the scope of Operational Funds to formally include risk management features.

## 5. RECOMMENDATIONS

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The following recommendations do not take into account the proposals for reform of the F&V CMO currently being discussed, and therefore are based on the *status quo* that we have found and considered throughout the analysis.

With this premise, our main **recommendations for possible ways of improving the current system based on withdrawals** are as follows:

1. The evaluation has highlighted a series of difficulties faced by both POs and charitable organisations/livestock farms regarding the practical use of “free distribution” and “animal feed”, which are also potentially more environmentally friendly. This leads us to make the following recommendations:
  - to improve the technical feasibility of the “free distribution” destination;
  - as an alternative or in addition, to promote the development of a more efficient information system in order to facilitate relations between POs and charitable organisations;
  - to simplify control procedures that directly involve charitable organisations and livestock farms receiving withdrawn products.
2. The analysis emphasised that only 3 of the 25 EU MS drafted “*national frameworks to prevent environmental damage during operations to dispose of withdrawn products*” that were deemed to be satisfactory by the Commission. Therefore we recommend that more intensive actions be taken by the Commission to ensure that all MS conform to an agreed set of rules.

Moreover, since Community regulations do not provide specific criteria or parameters to identify and regulate biodegradation and composting processes, different legislative approaches have been adopted by MS. Thus we recommend that the development of the Community’s regulatory framework provides: a specific and technical definition of biodegradation and composting processes; criteria and parameters to be adopted for environmental protection during the disposal of withdrawn products.

3. Despite the existence of a significant monitoring and control system, we encountered serious difficulties in gathering some relevant data. The main problem refers to price data. It would be advisable for data on prices to be accompanied by data on volumes traded, in order to be able to weigh the price with traded quantities when forming averages.

Other problems concerned the gathering of data on both the quantity and destination of withdrawn products that are listed as disposed of by “free distribution to third countries”. Although this related to very small quantities. Moreover, data relating to the quantity disposed of by biodegradation and composting are only available as rough aggregates. We thus recommend that actions be taken to improve the current monitoring system, and that data on the actual destinations of withdrawn amounts be made available at a more detailed level.

The results of the analysis on the management and efficiency of the present regulatory framework show that POs are the best actors to manage possible instruments and measures to cope with short-term crises. Therefore **with a broader perspective, in order to improve the management of short-term surplus crises** in the F&V sector, we also suggest an **evolution of the current framework, strengthening and broadening the role of POs in managing the risks faced by their members**. Useful actions could include:

1. strengthening the role of POs within the EU F&V market, since many tasks already carried out (in particular, the planning of members’ deliveries, negotiating with large retail chains) also have a price stabilising effect for their members, avoiding short term crises;
2. broadening the scope of PO operations and of Operational Funds to formally include risk management features;
3. publicly funded compensation for withdrawals, if any, should be limited to covering the costs incurred for disposing of the withdrawn product in environmentally friendly and socially acceptable ways.