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**Towards a reform of the fresh and processed fruit and vegetables
common market organisations**

Impact analysis summary

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Towards a reform of the fresh and processed fruit and vegetables common market organisations

1. FACTS AND FIGURES: THE REASONS FOR REFORM

1.1. The sector and its environment

Of the 9.7 million agricultural holdings in the European Union (EU) of 25, 1.4 million produce fruit and vegetables (F&V). The sector farms 3% of the cultivated area and produces 17% of the value of EU's agricultural production.

The sector is faced with pressure from the highly concentrated retail chains and with increased competition from third country products.

Due to the perishable nature of its produce and to the sensitivity of both production and consumption to climatic conditions, the sector is regularly subject to crises.

The impact of F&V production on the environment results from the amount of water, energy (greenhouses), pesticides and fertiliser it uses and from the waste it generates.

Compared with the recommended daily intake (400 g), the consumption of F&V in the EU is low, particularly for children. There is room for consumption to grow.

1.2. The common market organisations (CMOs) and an evolving common agriculture policy (CAP)

The F&V sector receives about 3.1 % of the Common Agriculture's budget (close to €1.5 billion in 2005).

Since 1996 POs are the pillar of support for F&V as a key element in the grouping of supply to rebalance the food chain and marketed in 2004 close to 34% of total production..

The EU grants support to POs carrying out Operational Programmes (OPs) which are financed 50/50 by the PO and by the EU (limited to 4.1% of the value of the production marketed by the PO). The measures include quality improvement, marketing activities, promotion campaigns, development of organic or integrated and environmentally friendly production.

The CMO for processed F&V provides for aids for processed tomatoes, citrus fruits, pears, peaches, dried figs, dried grapes and prunes which are in the WTO amber box are only granted to producers who are members of POs.

The Court of Auditors' Special Report "Growing Success? The effectiveness of EU support for producer organisations"¹ recommends making OPs simpler and more effective while better targeting and evaluating the objectives and suggests aligning the scheme's rules on those of Rural Development.

The 2003 reform introducing decoupling of support to farmers (single payment scheme – SPS) excluded areas with F&V (and potatoes other than for starch) from the system except in the case of some models of application chosen by certain Member States.

The other decoupled support, the Single Area Payment Scheme (SAPS) that applies in 8 new Member States, requires payments to be granted on all F&V areas.

The current situation is therefore very different from one MS to another.

2. AIMS OF THE REFORM

The aims of the reform are:

- to strengthen market orientation and competitiveness of the sector,
- to reduce fluctuations in farmers' income,
- to contribute to better balance the F&V marketing chain,
- to better take account of the diversity of the sector,
- to reinforce the capacity of producers to manage crises,
- to reduce pressure on the environment,
- to encourage a greater consumption of F&V,
- to ensure coherence with WTO rules and with development and neighbourhood policies,
- to reinforce predictability and control of public expenditure,
- to simplify management and improve control.

3. SCENARIOS AND REFERENCE OPTIONS

The objective of the reform is to simplify and align as much as possible the F&V common market organisation on the reformed CAP. In particular, the proposed reform removes all product-coupled support, integrates F&V into the SPS (including cross-compliance rules), respects our international commitments and reinforces budget predictability. The following elements would be part of all reform options:

- the freedom to farm resulting from decoupling and the accompanying cross-compliance;

¹ European Court of Auditors' Special Report No 8/2006 "Growing success? The effectiveness of the European Union support for fruit and vegetable producers' operational programmes", adopted by the Court on 28 June 2006.

- the allocation of SPS payment entitlements by Member States to F&V farmers according to objective and non-discriminatory criteria;
- the abolition of processing aids and transfer of the amounts thus saved to the national single payment envelopes;
- measures to increase the consumption of F&V notably by children and teenagers;
- the abolition of EU withdrawals and export refunds.

Two reform options that build on this common core were assessed.

1. The *transfer* option, involving an almost total dismantling of the common market organisations and a transfer of the EU contribution to POs to the 2nd pillar and to the national envelopes of the SPS or, alternatively to separate national envelopes. As for other sectors, support for modernisation and organisation of the sector would be granted via rural development policy. POs would only carry out withdrawals.

2. The *PO+* option, aiming at making POs more efficient and more attractive in line with the objective of the reform to make the sector more competitive. The legal framework would be simplified and made more flexible and its scope extended, with new measures for crisis management, an increased rate of EU financing in the new Member States and regions where grouping of supply is low, a minimum 20% of operational funds devoted to environmental measures, a reinforcement of monitoring and efficiency of POs and the possibility for Member States to draw up national strategies. Several of the changes follow recommendations made by the Court of Auditors in its Special Report “Growing Success? The effectiveness of European Union support for producer organisations”.

In addition to these options, a reference "status quo scenario" was examined.

4. THE IMPACT OF THE REFORM

The impact assessment included wide public consultation. Most of the organisations that responded want continued support for POs. Also, better promotion of the consumption of F&V is considered a must. On decoupling, opinions differ depending on the product concerned. Certain contributors consider that it is the right response to the problems of management and differences in treatment that exist today.

The quantification of the impact of the different reform options has been limited due to the great diversity of the sector, incompleteness or lack of comparability of existing data and the absence of modelling tools that could represent the envisaged changes. Under the circumstances, the impact analysis has had to remain essentially qualitative bearing in mind the reform's political and economic aims.

As far as the *transfer* option is concerned, several difficulties were identified: the problem of including new operations at this stage of rural development programming, the obligatory national co-financing and the current unequal distribution of support (reflecting the uneven grouping of supply through POs) between the Member States, which would have been perpetuated. Therefore this option was discarded.

The retained option is the **PO+** reform that should help achieve the identified objectives. The impacts of the proposed reform are described hereafter.

4.1. Economic impact

1. Cultivated areas: Land on which F&V (and table potatoes) are grown becomes eligible for the single payment scheme as is the case in SAPS and should lead to F&V new producers developing their activities.

The decoupling of aid for F&V intended for processing will enable production to be adjusted according to market realities making it possible to convert to other crops. It will also allow producers who are not members of POs to develop such production.

2. Supply of raw material for the processing industry: For tomatoes, the current aid system does not guarantee a stability of supply. The analysis carried out on the basis of FADN data does not lead to the conclusion that decoupling would cause producers to leave the processing tomato sector in great numbers. The evaluations also point out that the extension of decoupling to industrial tomatoes would help re-establish a level playing field between F&V crops. For other products intended for processing, decoupling does not seem to create a risk of a significant reduction in supply to the processing industry.

3. Prices paid to producers and producers' income: A stronger role for POs should lead to a better balance between the various actors in the sector and a more balanced distribution of added value. The impact on the market outlets for Community products and on prices obtained by producers should be positive without resulting in price rises for consumers.

Decentralised crisis management carried out by producer organisations should contribute to such a result particularly due to the possibility to fine tune actions.

Other elements will be playing a positive role: the foreseeable drop in the cost of production factors and the general improvement in productivity resulting from the freedom of choice granted to producers.

Amber box aids are not sustainable in the longer term. Decoupling will contribute to ensuring greater stability in producers' incomes.

4. Competitiveness: Encouraging membership of POs by increasing the EU financing rate in the new Member States and in regions where organisation levels are low should make POs more attractive and should result in an increase of the grouping of supply, particularly for fresh products. This should make these products more competitive and strengthen producers in the face of retail and discount chains.

The abolition of the controls related to the payment of processing aids should result in a reduction in management costs and improve the competitiveness of the sector.

The abolition of export refunds should not have a significant impact on EU exports.

5. Consumption: Regarding consumption, the proposal to increase the financial contribution of the EU in promotion actions aimed at increasing children's intake of F&V should contribute to a better and more balanced diet and to healthier eating habits.

The development of producer organisations should lead to improvements in the quality of the sector's products.

6. Budgetary predictability: The transfer of the amounts for processed F&V to the single payment envelopes puts an end to the existing budgetary uncertainty in EU F&V support, as far as about half the expenditure is concerned. Experience of recent years has shown that POs' expenditure is growing on average by €50 Mio per year. Reforms in 2000 and 2003 contributed to improve the attractiveness of POs and, as a result, to continue this trend. The objective of the reform is to continue improving the attractiveness of POs. The development of new POs is gradual, this is why a significant explosion of expenditure is not expected but rather a continuity of the current trend." The proposed reinforcement of POs obviously requires some additional financing compared to the status quo situation. Nevertheless this increase will remain within limits because the basic rules will not change (EU rate of financing of POs' operational programmes is limited to 50 or 60% depending on the particular conditions and cannot be higher than 4.1% of the value of the marketed production.) The hypothesis formulated is that the overall budget effect will be broadly neutral due to the abolition of export refunds and market withdrawals.

4.2. Regional impact

The impact of decoupling is very different not only from one product and from one producer to another but also from one region to the next. In a region, there is a difference between prices paid to producers by the industry. Therefore it is difficult to draw definitive conclusions. It is to be recalled that most regions where processing industry is located are Convergence regions.

Aside from the impact of proposed legislative changes, the rising concentration of buyers/retailers, the stagnating consumption, the increase in imports, the difficulties experienced on export markets, the strengthening of the position of certain producers in the market have already had consequences on the production structure.

The improved grouping of supply in the new Member States and in certain other regions should help to maintain production in those areas because it would lead to a more sustainable F&V production.

4.3. Social impact

Decoupling will give a guarantee for a part of the income of the F&V producers benefiting from the SPS. Thus it will contribute to social stability of the concerned regions by enabling the level of upstream and downstream activities of the sector to be maintained, with the resulting impacts on employment.

Decoupling of support to producers of fruit and vegetables should lead to less intensive production methods and a more sustainable production based on market signals notably for fruit and vegetables destined for processing. Overall it is difficult to assess the net effect on employment but it is believed that on balance, the effect may be positive based on a more competitive sector as a result of the reform.

Continued 100% EU financing of withdrawals of F&V to be distributed free to the most deprived persons in the EU is a measure with a clear positive social impact.

4.4. Environmental impact

The compulsory application of cross-compliance rules for all F&V farmers receiving payments under the single payment scheme, the proposed minimum of 20% of expenditure on environmental measures in each OP and the increase to 60% in the Community co-financing rate of operational funds for organic production carried out in the framework of OPs, will all have a positive effect on the environment.

The proposal for Member States to design a national strategy for OPs, focused on a better programming of expenditure in order to achieve more effectiveness of the scheme, will have a positive impact concerning the environmental measures that will be part of this national strategy.

The development of producer organisations and the improvement of the financial situation of producers should be reflected in a greater effort in investment with environmental benefits and in quality improvement.

As a general result it is expected that the F&V sector will improve its contribution to the protection and preservation of the environment and that the effects of the actions carried out will be better measured and assessed.

4.5. Simplification

There is administrative simplification resulting from the abolition of processing aids and export refunds.

In its effort to improve the attractiveness of Producer Organisations the reform proposes simplification and increased flexibility.

The creation of national strategies should represent a real simplification for organised producers.

The Commission is firmly committed to simplifying marketing standards. However common rules should exist to ensure the smooth operation of the single market and the respect of the EU's international commitments. The Commission is examining the best way to go forward whilst taking account of all these elements.

Simplification enables actions to be carried out more easily and facilitates appropriate monitoring.

5. SUMMARY OF THE ADVANTAGES AND DISADVANTAGES

The chosen option is a combination of improvements and simplification which should allow for better market orientation on the part of the sector. This will contribute to a better balance in the market powers, price formation and ultimately, producers' income. With the new crisis management tools, the proposed reform will help reduce fluctuations in farmers' income. Greater consistency with WTO obligations and the EU's international commitments will also be achieved. F&V producers who wish to receive EU support, will be obliged to preserve the environment because of cross-compliance and because of the 20% minimum expenditure on environmental measures foreseen for OPs. Special emphasis will be put on encouraging consumption of F&V by the younger generation. The reform provides to some extent greater

budgetary predictability through the decoupling of the existing support for processed F&V and the inclusion of the corresponding amounts in the single payment envelopes. Finally, simplification together with improved clarity was sought throughout the whole drafting process which makes for more readable and concise legislation which should be easier to apply.

The only disadvantage of the reform proposal identified by the processing industry concerns the possible lack of supply of raw material as a result of decoupling of support. The evaluations and analyses carried out do not confirm such an outcome.

6. FOLLOW-UP AND EVALUATION

The evaluation of the Producer Organisations planned for 2009 in the framework of the periodic evaluations of the CAP, will provide the opportunity to re-examine the specific public support for the grouping of supply in the F&V market. The Commission shall present also a report to the European Parliament and Council by 31 December 2013 at the latest on the implementation of legislation relating to producer organisations, operational funds and operational programmes.

7. CONCLUSION

The impact analysis concludes that the "PO+" option gathers the maximum of advantages. It provides for:

- the inclusion of F&V (and table potatoes) producers and areas in the SPS,
- maintaining POs and making them more attractive.

The main objectives of

- improved competitiveness,
- grouping of supply,
- income stability for farmers,
- providing for crisis management,
- enhanced consumption,
- environmental preservation,
- improved coherence with WTO rules,
- budgetary predictability and
- simplification

should be met.