



A REVIEW OF THE EU REGIME FOR THE FRUIT AND VEGETABLES SECTOR

PUBLIC CONSULTATION ON POLICY OPTIONS AND THEIR IMPACT ASSESSMENT

1. CONTEXT

Council Regulation (EC) No 1234/2007 ("the single Common Market Organisation") provides for a **report** (thereafter called "the report") **regarding producer organisations, operational funds and operational programmes in the fruit and vegetables sector** to be presented to the European Parliament and to the Council by 31 December 2013¹. In the meantime, the CAP 2020 proposals² do not foresee major changes to the fruit and vegetables regime within the single CMO (see paragraph 2.1.), while greatly affecting the agricultural policy context surrounding the sector.

Since the latest reform of the sector, decided in 2007, producer organisations (POs) became the unique actors to manage market crisis situations and a wider range of crisis prevention and management tools was put at their disposal. Incentives were included to encourage larger POs, associations of POs (APOs) and transnational cooperation. Special emphasis was put on protecting the environment, requiring POs to include a minimum level of environmental spending under their operational programmes. Member States had to establish a national strategy for sustainable operational programmes integrating a specific environmental framework. The 2007 fruit and vegetables reform also removed the possibility to pay export refunds in the sector and decoupled the aids for processing. Aid to encourage the setting-up of Producer Groups (PGs), which should become fully-fledged POs within maximum 5 years, was limited to new Member States³, the outermost regions and the smaller Aegean Islands.

In the light of the recurrent market crises (2009 and 2011 in particular), the experience of the 2011 Enterohemorrhagic Escherichia coli (EHEC) crisis, the still low rate of organisation of producers, especially in new Member States and in Southern Member States, and the persisting imbalance of bargaining power that fruit and vegetables producers have vis-à-vis the distribution sector, **it is appropriate to advance the analysis of the regime**, taking into account the CAP reform, paving the way for a timely application of its findings.

An Inter-Service Steering Group (ISSG) has been set up in order to benefit from contributions of other Commission services concerned by this initiative and support ongoing impact

¹ Article 184, paragraph 4, of Council Regulation (EC) No 1234/2007.

² More details on "The Common Agricultural Policy after 2013" can be found on this link: http://ec.europa.eu/agriculture/cap-post-2013/index_en.htm

³ Member States which acceded to the European Union on 1 May 2004 or thereafter.

assessment work. The **impact assessment report**, together with the **draft "report"** and possible **draft legislative proposals** for reviewing the EU fruit and vegetables regime should be submitted to the Commission College by May 2013.

This consultation document aims to inform interested parties of the possible review options the Commission services are working on and to ask for their contributions. These should be submitted as provided at the end of this document by 9 September 2012.

2. CAP REFORM

2.1. Single Common Market Organisation

The CAP 2020 proposal (October 2011) does not foresee major changes to the fruit and vegetables regime since it was too early to draw conclusions from the latest fruit and vegetables reform that fully entered in force in 2009. However a significant amendment is the transfer of the aid to encourage the setting-up of producer groups to the second pillar.

On the other hand, the obligatory recognition of producer organisations by Member States currently in force for the fruit and vegetables sector is extended to all sectors.

2.2. Direct aids, cross compliance and greening

The fruit and vegetables sector was included in the Single Payment Scheme in the 2007 reform thus allowing farmers to be granted payment entitlements for fruit and vegetables areas. EU-15 Member States could decide to defer the eligibility of areas until the end of 2011. However, the availability of entitlements was limited except for producers of fruit and vegetables who were receiving processing aids before the reform. For new Member States (except Malta and Slovenia), implementing the Single Area Payment Scheme (SAPS), fruit and vegetables areas were directly eligible.

Under the CAP 2020 proposal, a new distribution of entitlements is foreseen, so all fruit and vegetables producers should benefit from the allocation of entitlements and therefore receive direct payments. All fruit and vegetables producers will therefore be subject to respect of cross compliance requirements and the obligation to follow the CAP agricultural practices beneficial for the climate and the environment ("greening").

2.3. Rural development

Both fruit and vegetables operational programmes and rural development programmes can currently include similar operations, in particular as regards investments in fixed assets, agro-environmental actions and actions relating to training and use of advisory services. Demarcation criteria and administrative rules are therefore set to avoid double funding.

The CAP 2020 proposal for rural development reinforces existing instruments and makes available new ones which are similar or complementary to the tools under the fruit and vegetables scheme, including a risk management toolkit. In addition, the new proposal opens the possibility for Member States to include in their rural development programmes thematic sub-programmes to address restructuring of agricultural sectors, including the fruit and vegetables sector, which have a strong impact on the development of rural areas.

It should be considered which synergies, complementarities and simplifications could be achieved to increase the efficiency of both pillars acting on the fruit and vegetables sector.

2.4. Budgetary framework

A budgetary ceiling has been recently introduced for Recognition Plans of PGs, pending their integration within the second pillar. Still, there is no global ceiling for Operational Programmes of POs. EU budget ceilings exist at the level of individual POs⁴. However, the more POs recognised and the bigger their economic dimension (Value of Marketed Production), the higher the EU expenditure. In 2011, total EU support for the fruit and vegetables sector (excluding School Fruit Scheme) amounted to 892 Mio €, of which 697 Mio € for POs and 195 Mio € for PGs.

Under the multi-annual financial framework (MFF) foreseen under the CAP 2020 proposals the amounts available for market management, among which the fruit and vegetables lines are included, are very limited.

3. CURRENT CHALLENGES AND EMERGING ISSUES

3.1. Persisting weaknesses in organisation of the fruit and vegetables production

The organisation of the fruit and vegetables production sector remains weak in several Member States and regions of the EU.

Four main types of weaknesses can be distinguished: low rate of organisation, small size of POs, limited coverage of certain products and lack of professional management.

3.1.1. Low rate of organisation

Overall the organisation rate⁵ at EU level has been growing in the period 2004-2009⁶ from 34% to 43 %, with no significant acceleration after the 2007 reform. The objective of an average rate of 60 % by 2013 set in the 2007 reform seems out of reach.

Trends and organisation rates are very different depending on the Member State considered:

- Increase in EU-15: from 36 % in 2004 to 48 % in 2009; the highest increases occurred in Portugal, whilst the organisation rate is stagnating in Greece and France and shows a negative trend in the United Kingdom and Ireland.

⁴ A double ceiling applies to the EU support to the operational fund used to finance the implementation of the operational programme: max. 4.1% of the value of the marketed production and up to 50% of the actual expenditure incurred under the operational programme. The 4.1% limit may be increased to 4.6% provided that the amount in excess of 4.1% is used solely for crisis prevention and management measures. The limit of 50% is also increased to 60% under specific conditions.

⁵ The organisation rate, as referred in this document, is the contribution (%) of POs, APOs and PGs to the total value of fruit and vegetable products marketed. The value of fruit and vegetable products marketed includes all fruit and vegetable products marketed by the POs, APOs and PGs, whatever their source (i.e., from members and non-members of POs, APOs and PGs).

⁶ Reliable data on 2010 and 2011 are not available (annual reports 2010 still subject to data quality controls, annual reports 2011 not yet available).

- Surge following accession but still at modest levels in EU-10: from 6 % to 14 % in the period 2004-2009; the highest increases occurred in the Czech Republic (from 22 % to 49%) and Poland (through PGs, from 1 % to 12%);
- Still very low organisation rate in Romania (from 0,2 % to 3 %) and Bulgaria (0,3 % to 0,7%) (in the period 2007-2009).

Historically linked sociological patterns as lack of mutual trust, systematic suspicion and the temptation of taking advantage of the efforts done by others without paying the price (free rider behaviour) make it difficult to increase the producers' organisation degree in some regions or even entire Member States.

As a result, since EU support is granted only via POs, APOs and PGs, the majority of fruit and vegetables producers – often the smallest ones – do not benefit from this support. In some Member States or regions, most fruit and vegetables producers cannot benefit the current EU regime whereas they have a low bargaining power within the supply chain and face the risks linked to markets globalization.

3.1.2. Small size of many POs

More than the half of all POs have a value of the marketed production (VMP) of less than 5 million EUR while the biggest POs⁷, which account for a mere 14 % of all POs, have a share of 67% of the total VMP of POs. Because of the very limited volumes of production that they concentrate, *small POs have a too limited bargaining power* in the face of distribution chains or processing companies that often have a multinational dimension.

3.1.3. Limited coverage of certain fruit and vegetables

In some Member States and regions, certain fruit and vegetables are not covered by POs or have a limited coverage. Perishable products highly dependent on climatic conditions are of particular concern because they are subject to cyclical market crises (e.g. tomatoes, peaches).

3.1.4. Lack of professional management

There is a sharp contrast between the level of professional knowledge and education of the managers of the distribution chains and those of the producer organisations, particularly in some regions and Member States. Transparency of the management is not always guaranteed and could disincentive organisation in some cases.

Even if this picture cannot be generalised over the whole EU, the need appears for an improvement of the professional skills and transparency of the management of producer organisations.

3.2. Increasing production uncertainties

As a result of the globalization of the markets, the EU fruit and vegetable sector faces increasing and more intense competition from products from third countries. Globalization of the markets can also lead to the opening of new potential markets for the products.

⁷ Having a VMP equal to or higher than 20 million Euro.

This entails more uncertainty about product prices and access to usual domestic and/or export markets as well as about availability and prices of essential production inputs (e.g., energy, fertilizers, plant protection products, equipment). A possible consequence is a higher frequency and intensity of market crises and decrease in production margins.

3.3. Widening gap between output and input prices

The gap between the trends of producer (output) prices and costs (input prices) has widened significantly in the last years.

Widening trends in output and input prices could lead to a progressive "squeeze" of the margins for farmers, which could entail the marginalization of certain fruit and vegetables productions in some EU regions, unless the widening gap is compensated by productivity gains. But forced productivity gains could eventually result in damages to natural resources (soil, water, air quality, non-renewable energy resources) or the environment (ecosystems, habitats, biodiversity...).

3.4. Risks for the environment and climate change

The environmental impacts of fruit and vegetables growing are fairly diverse. A distinction can be drawn between the type of production of fruit and vegetables. A more intensive type of production is characterized by the *use of important volumes of inputs*, such as plant protection products (PPPs), water, fertilizers and energy as well as plastics, and other materials or processes resulting in *waste production*. Environmental costs may also concern soil quality, biodiversity and habitats. In contrast, a less intensive production of fruit and vegetables frequently contributes to maintenance of soil quality (e.g. through use of rotation systems and organic fertilizers), landscape (e.g., terraces, stonewalls) and biodiversity (hedgerows, use of local varieties in danger of being lost). Moreover, fruit and vegetables are one of the most transported goods in the globalised world and, therefore, a differentiation on the environmental impact can also be done at the level of the type and the distance of transport from producers to consumers. Producing for local markets and short circuits has a lower carbon footprint than producing for distant markets.

Climate changes will have complex effects on the bio-physical processes that underpin agricultural systems, with both negative and positive consequences in different EU regions. Higher temperatures, changes in annual and seasonal precipitation patterns as well as in the frequency of extreme events (e.g., drought) will affect the volume, quality and stability of production. Climatic variations will have consequences on water resources, soil quality and pests and diseases, leading to significant changes in the production conditions. In extreme cases, the degradation of agricultural ecosystems could result in a total loss of the productive capacity in certain areas. It seems reasonable to expect that an increase in *extreme events will result in larger variations in annual production in some regions, thus amplifying also the volatility of fruit and vegetables production.*

3.5. Uneven distribution of value added along the fruit and vegetables supply chain

Like for other agricultural products, the fruit and vegetables supply chain ('from farm to fork') has undergone important structural changes over the past decade, with the value-added increasingly being created in sectors downwards the chain, primarily in the processing

industry and in the distribution sector. This trend has been favoured by the increased concentration downstream the supply chain, particularly at the retail level.

Given the generally much lower level of concentration at agricultural producer level, downstream players of the value chain are normally at a comparative advantage with regard to bargaining power and the possibility to substitute suppliers. *The situation is worsened by the fact that the majority of fresh fruit and vegetables are very perishable products that producers have to sell in a very short period.*

This affects not only the level of product prices but also the level of costs born by fruit and vegetables growers, since the latter are put under pressure regarding other terms of sale, such as "quality" of products (respect of "private" quality standards), conditions for delivery (strict respect of calendar and time of delivery subject to sanctions), logistic requirement (e.g. type of packaging used and transport means), terms of payments (deferred payments), etc.

3.6. Limited use of crisis prevention and management tools

The 2007 reform for the fruit and vegetables sector established six different crisis prevention and management (CPM) tools in the framework of the operational programmes of the producer organisations:

- (1) market withdrawal, including for free distribution
- (2) green harvesting or non-harvesting,
- (3) promotion and communication,
- (4) training measures,
- (5) harvest insurance and
- (6) support for the administrative costs of setting up mutual funds.

Despite severe crisis in 2009 and 2011, use of CPM tools has been limited after the reform. They absorbed at EU level only 1% of the total expenditure of operational programmes in 2008 and 3,1% in 2009 (considered as a crisis year), which is far away from the limit of 33% of the total expenditure of the operational programme of the PO established in the Council Regulation. Moreover, use of certain new CPM tools (green/non harvesting, training and setting up of mutual funds) has been very limited.

Together with the complexity of procedures (see point 3.8), a possible reason for the limited use of CPM tools can be found in the small size of many POs that, because of the low volumes of products covered, the low amount of support for market withdrawal and/or the limited financial means at their disposal, are led to consider currently eligible CPM tools as ineffective or simply not attractive.

3.7. Stagnating or falling consumption of fruit and vegetables

Available statistics show that *the consumption of fruit and vegetables is stagnating or even falling in the EU.*

According to Freshfel Europe ⁸:

- Per capita fruit consumption in 2010 stands at 219 g/capita/day on EU average. In 2010, it has decreased by 7.8% compared with 2009 and by 9.4% compared with the previous five years (2005-2010).
- Per capita vegetable consumption in 2010 stands at 228 g/capita/day on EU average. In 2010, it has decreased by 7.4% compared with 2009 and by 10.3% compared with the previous five years.
- While EU average per capita consumption for fruit and vegetables is above the World Health Organisation (WHO) recommendations, many Member States still have a level of per capita consumption lower than the minimum 400 g recommended.

The question arises *how fruit and vegetable consumption can be increased, and particularly to the benefit of that part of the EU population that has currently an insufficient access to those essential elements of the diet and which linkage could be established with the School Fruit Scheme and the reform of the EU promotion policy.*

3.8. Needs for simplification

Several elements introduced by the 2007 reform (e.g., National Strategy, National Environmental Framework, National Financial Assistance) appear *cumbersome both to the Commission services and to the National administrations* in charge of managing the regime.

Moreover, certain rules of the regime appear *to be cumbersome to producer organisations, such as*, recognition requirements, eligibility requirements for certain expenditure, outsourcing, provision of technical means, annual reports.

After the first years of implementation of the 2007 reform there is a call for analysis and, where appropriate, simplification.

4. AIMS OF THE REVIEW

In the light of the problems and issues identified above and the common objectives of CAP 2020 as well as the international commitments and budgetary constraints of the EU for the years to come, the challenges and the objectives to meet for the next review of the fruit and vegetables regime within the single CMO can be identified as follows:

- To improve competitiveness, in terms of productivity gains and capacity of findings new outlets for products;
- To improve resilience of the sector, in terms of ability of producers to adapt and react to unexpected developments and market crises;
- To improve production sustainability and resources efficiency;

⁸ Freshfel Europe stands for European Fresh Produce Association.

- To increase the share of value added for producers in the fruit and vegetables supply chain, including by improving the bargaining power of producers;
- To raise consumption of fruit and vegetables (fresh and processed);
- To control EU budget expenditure; and
- To simplify management of the EU regime in the fruit and vegetables sector.

Key requirements for mastering the first four of the above-identified challenges appear to be a rise in the organisation of the sector, whether through producer organisations or any new form of co-operation among producers.

This does not exclude that, to gain the four challenges, appropriate measures targeting individual fruit and vegetables producers could be necessary, particularly in regions and Member States where significant progress in organisation would prove to be difficult or even impossible.

5. OPTIONS

The ISSG identified a set of options which may address the objectives set. They all have some positive and negative aspects that need be carefully assessed and weighted. Most of them are not exclusive and could be combined to a certain extent. Their analysis should make apparent their likely impact if implemented as such. They should also raise comments around topics that are not directly linked to the problems and issues identified but that could enlarge the scope of the discussion and contribute to the general aims of the review.

When assessing the options mentioned below, it will be necessary to take account of the CAP 2020 reform and the amounts foreseen for the CAP in the context of the Multi-Annual Financial Framework 2014-2020.

5.1. Option 1: Status quo

Current scheme is kept: support is only granted to POs through Operational Programmes. The EU support is capped at PO level but there is no global EU ceiling (the more POs recognised and the higher the value marketed by them, the more EU expenses).

5.2. Option 2: New instruments to reinforce the organisation of producers and to improve crisis tools and, in regions with historic low degree of producer organisation, tailor made instruments to stimulate the competitiveness of individual producers

New instruments to encourage the organisation of producers are envisaged. Four different sub-options that could be also combined are identified below.

Current crisis tools are improved and, where appropriate, their scope enlarged to mutual funds contributions, market insurance, etc.

(A) Further strengthening of Producer Organisations

EU support continues to be focussed on producer organisations that place in the market the production of their members. Additional efforts are made to increase the organisation in MS

with low development of POs. Favourable financing could come under the form of support higher than 4,1/4,6%, co-financing rate higher than 50-60%, through EU or national resources. Instruments could be also envisaged to increase the size of POs (e.g. new incentives for merging and creating new associations of POs), and to improve their management (e.g., compulsory periodic external audits, specialized training, advice and/or technical assistance that could be eligible for EU support).

(B) Support to new forms of co-operation

EU support is granted to promote different forms of co-operation among individual producers, that could include the implementation of common actions (e.g. promotion, access to advisory services and training, etc), sharing selling facilities in local markets, collaboration among different actors in the food chain, etc.

(C) Encouragement of co-operation between POs and individual producers

POs continue to be the cornerstone of the scheme whilst the co-operation between individual producers and POs is encouraged for certain activities and in certain situations. Specific transitional provisions could be envisaged for MS with low development of POs, where different forms of co-operation could be also supported.

(D) Support for individual producers in regions with low levels of organisation

In regions where, for historical, geographical or other long standing structural reasons, the degree of organisation is limited, beyond measures to continue encouraging the setting up of associative forms, EU support will design a framework suitable to increase the competitiveness of producers in these regions, which are numerous in EU-27, by means adapted to their situation. These measures will encourage tailor made investment strategies, market access tools, and specific risk management approaches. Such adapted instruments should also cover matters related to product marketing, environment protection and innovation. Measures to facilitate the access to different type of markets, and notably local markets and "short circuits", will be also encouraged.

5.3. Option 3: Transfer of certain measures to rural development

The current scheme of POs support through OPs is kept with amendments. As a number of actions currently supported under operational programmes of producer organisations in the fruit and vegetable sector are also eligible for EU support under rural development programmes, "transfer" consists in removing eligibility for support for certain actions under the first pillar and maintaining it under the second pillar. Structural measures are transferred as being more in line with the objectives of the second pillar. Budget resources of the operational programmes are concentrated in measures to address short-term, conjuncture related, problems.

Different degrees of transfer give a graduation in this option:

- Transfer of investments in individual holdings;
- Transfer of all investments;
- Transfer of all investments plus environmental actions;

- Transfer of all measures except actions related to crises prevention and management, promotion and research and innovation.

Options 2 and 3 could be combined.

5.4. Option 4: Total transfer to the second pillar

This implies the abolishment of a separate regime aimed to support the fruit and vegetables sector.

6. AIMS OF THE CONSULTATION

This consultation is intended to ask for contributions on the issues that have arisen pursuant to the work of the Inter-services Steering Group and the hearings with stakeholders but also on other issues related to the sector that could be connected even indirectly with present or future challenges. Considerations, comments and options are mentioned above and the following questions could help focus on particular aspects of this review:

- 1) Are there other problems or future challenges for the sector that have not been mentioned in this consultation document?
- 2) Are there, in your view, other possible options to address the challenges faced by the fruit and vegetables sector? Which ones?
- 3) Do you see particular difficulties to implement the suggested options?
- 4) Do you think a particular option is more balanced than all the others?
- 5) What would be the main impacts of each option? Which criteria should be used to assess positive and negative impacts?
- 6) Which actors or stakeholders would be particularly affected by each of the options in your opinion? Who would benefit most?
- 7) Should other elements or variables be integrated in the impact assessment of the options analysed?

DG Agriculture and Rural Development is aware that the options and topics it has chosen to explore take account of a limited series of factors and that they cannot cover the full range of political choices open for the Commission. That is the reason for seeking contributions from interested parties who can enrich these options and help assess their feasibility and impact.

Within the limits of its possibilities, DG Agriculture and Rural Development also wishes to incorporate into its analysis proposals by stakeholders that, in compliance with the international commitments of the Union and the general aims of the CAP towards 2020, would make it possible to improve the economic, social and environmental sustainability of horticultural production and marketing. Proposals may relate to the Common Agricultural Policy or to other EU policies connected with the fruit and vegetables sector. Proposals and comments will be easier to take into account in the analysis if they contain verifiable factual elements that make them possible to be assessed. Please be sure to specify clearly if any elements provided are to remain confidential.

The consultation will remain open until 9 September 2012.

Please send contributions through the electronic form to be filled on the consultation webpage or alternatively

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