International Agricultural Trade and Policy Center

EUROPEAN UNION FARM POLICY FOR CITRUS, TOMATOES, AND DAIRY

By

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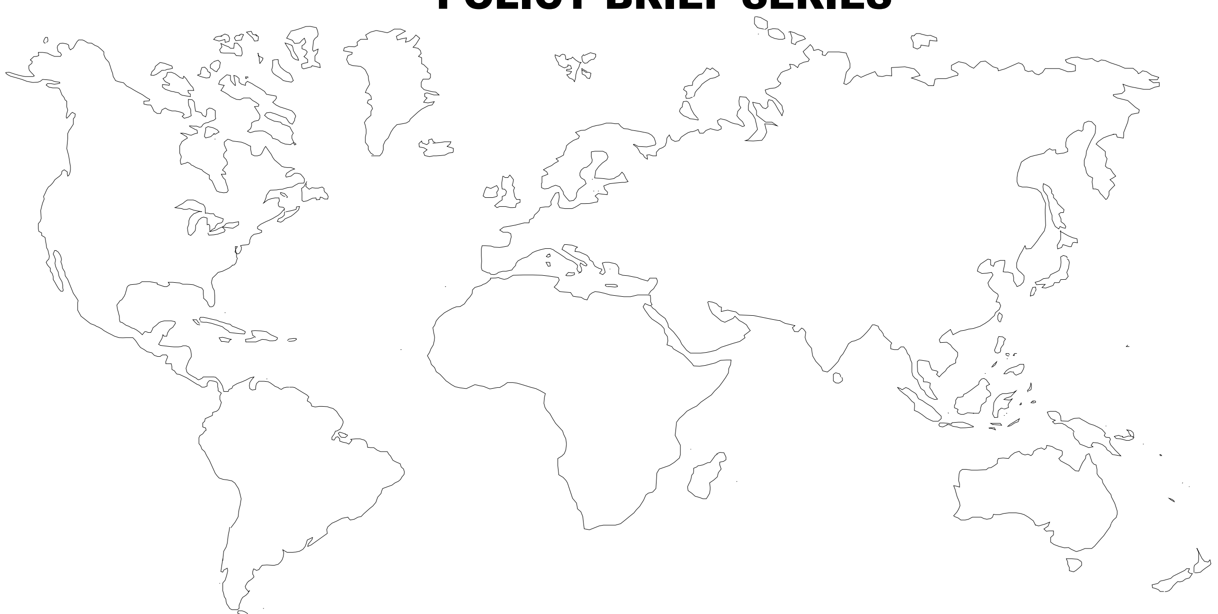

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Institute of Food and Agricultural Sciences

INTERNATIONAL AGRICULTURAL TRADE AND POLICY CENTER

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OBJECTIVES:

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- Serve as a university-wide focal point and resource base for research on international agricultural trade and trade policy issues
- Facilitate dissemination of agricultural trade related research results and publications
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- Provide support to initiatives that enable a better understanding of trade and policy issues that impact the competitiveness of Florida and southeastern agriculture specialty crops and livestock in the U.S. and international markets

Abstract: European Union (EU) consumers pay almost twice the competitive world price for many agricultural products. Agricultural subsidies accounted for almost half of the EU's total budget (US$ 40 billion on agriculture in 2000) although agriculture represented 1.7 percent of the EU's GDP and employs 4.3% of the EU's population. Domestic policies for citrus and tomatoes include export refunds, product withdraws from the market, intervention thresholds, and direct producer aid. Domestic policies for dairy include export refunds, intervention thresholds, aid for private storage, disposal aid, and milk quotas. The EU's intentions are to enhance agricultural competitiveness by setting product intervention as "a real safety net measure, allowing EU producers to respond to market signals while protecting them from extreme price fluctuations," and promoting market oriented, sustainable agriculture by finishing the transition from product support to producer support, by introducing a "decoupled system of payments per farm" which are not connected to production. The EU wishes to allow flexibility in production, but also guarantee income stability to producers. Within the last 10 years, the EU has reduced price supports and increased direct payments to tomato, dairy, and citrus farmers to compensate them for the reductions.

EUROPEAN UNION FARM POLICY FOR CITRUS, TOMATOES, AND DAIRY

Damian C. Adams, J.D. and Richard L. Kilmer[1]

Introduction

Since the advent of the Common Agriculture Policy (CAP) in 1962 that helped lay the foundation for the European Union[2] (EU), Europe has taken a strong protectionist stance with respect to its agricultural markets.[3] This is especially true for European products like dairy and fresh fruits and vegetables that are relatively vulnerable to foreign competition due to domestic prices well above world price levels.

European consumers pay 45%[4] more for food because of the EU's domestic farm programs. EU farmers receive almost twice the world price[5] for many agricultural products. Fortunately, recent EU GATT and later WTO membership has successfully forced changes to the CAP that result in less domestic support for European agricultural markets. As a result, "Fortress Europe," as many American exporters call the EU, is becoming more accessible to world agriculture producers, including Florida farmers. In 2001, the EU was a net exporter to the US with a Euro 2.63 billion surplus and the US

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[2] There are fifteen full members of the EU: Austria, Belgium, Denmark, Finland, France, Germany, Great Britain, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, and Sweden. See http://www.encyclopedia.com/html/E/EuropnU1n.asp

[3] http://europa.eu.int/abc/history/1962/1962_en.htm (Accessed October 17, 2002). Ironically, the GATT negotiations would begin less than a year after the formation of the CAP. The CAP was primarily concerned with reducing barriers to trade between European Economic EU (EEC and later EU) members and ensuring a stable food supply. In 1965, when financing of the CAP was being negotiated by EEC members, France, the largest agricultural producer in the EU, broke off negotiations, recalled its Permanent Representative to the EEC, and refused to take part in official meetings relating to the EEC until its desires concerning farm subsidies and external trade barriers were met. See generally http://europa.eu.int/abc/history

[4] Fuller, Thomas. "Berlin and Paris agree to cap EU farm spending." *International Herald Tribune Online*, October 25, 2002. http://www.iht.com/articles/74838.html(Accessed October 25, 2002).

was a net importer from the EU with a Euro 5.65 billion deficit. In 2000, the values are 2.63 billion and 5.51 billion, respectively.[6] In 2000, Euro 1 = US 1.12.[7]

The level of EU support of agricultural markets is decreasing, but still relatively high compared to the US (although this may have changed somewhat with the most recent Farm Bill) and the rest of the world. The recent changes have signaled a trend away from market-distorting actions and toward direct payments to producers. Agricultural subsidies accounted for almost half of the EU's total budget (US$ 40 billion on agriculture in 2000) although agriculture is a very small part of the European economy.[8] In 2000, agriculture represented 1.7 percent of the EU's GDP, and employed 4.3% of the European population.[9] In 1999, the EU appropriated Euro 40,440 million for agricultural support spending Table 1), of which Euro 10,301.4 million was spent on market support and Euro 29,239.4 million was spent on direct aid to producers.[10] Market support includes export refunds (Euro 5,572.8 million in 1999), storage (Euro 1,568.3), guidance premiums (Euro 154.3 million), processing and consumption aid (Euro 2,684.3 million), withdrawals (Euro 346.2 million) and miscellaneous (Euro 24.5 million).[11] European support of agriculture is still very high compared to the US.[12]

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[5] Special Report no 6/2001 on milk quotas, *Official Journal C 305, 30/10/2001 P. 0001 - 0034*. The "producer subsidy equivalent" for milk is 54% of the value of output compared to 44% for all agricultural products.

[6] Europe Trade statistics, http://europa.eu.int/comm/trade/goods/agri/stats.htm

[7] The Agricultural Situation in the European Union, 2000 Report, COM (2002) 67 final, Commission of the European Communities at 132.

[8] USDA-ERS briefing room, http://www.ers.usda.gov/briefing/EuropeanUnion/basicinfo.htm

[9] USDA-ERS briefing room, http://www.ers.usda.gov/briefing/EuropeanUnion/basicinfo.htm

[10] The Agricultural Situation in the European Union, 2000 Report, COM (2002) 67 final, Commission of the European Communities at 134.

[11] The Agricultural Situation in the European Union, 2000 Report, COM (2002) 67 final, Commission of the European Communities at 134.

[12] "Comparison of Domestic Support: US-EU", http://www.fas.usda.gov/htp/tradepolicy/europe/ams98-99.pdf. For the 1998/99 marketing year, EU total Aggregate Measure of Support was 51,351 million dollars, compared to 10,392 million dollars of support in the US.

Table 1. EU agricultural spending by commodity and economic type, 1990-2000[13]

Spending category	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999[14]	2000[15]
Millions Ecu, Euro											
Dairy	4955.9	5636.6	4006.82	5211.3	4248.83	4013	3441.1	2984.9	2596.7	2581	2643
Export refunds	1930.8	2249	2056.15	2287.5	1926.75	2267	1605.2	NA	1426.7	1259	1417
Intervention	3025.1	3387.6	1950.66	2923.8	2322.08	1746	1835.9	NA	1170	1322	1226
Fruit and vegetables	1253	1106.5	1261.7	1663.9	1556.84	1557	1581.1	1555.3	1509.5	1661	1654
Export refunds	80.6	94.8	116.72	187.4	216.67	239	98.4	NA	58.3	65	60
Intervention	1172.4	1011.7	1145.00	1476.5	1340.17	1317	1482.7	NA	1842	1596	1501.5
Total Market Organization	24,850	30,334	30,128	33,223	29,947	30,956	37,790	37,838	36,729	37,165	35,720
Other Direct Payments	1,604	1,450	1,241	2,128	1,105	424	1,318	2,585	2,019	3,275	4,806
Total Market Support	26,454	32,386	31,369	35,352	32,970	34,503	39,108	40,423	38,749	40,440	40,526
Miscellaneous	1,974	2,306	2,983	3,336	3,335	3,609	4,044	4,399	4,525	5,691	2,668
Total agricultural spending	28,428	34,692	34,353	38,688	35,683	38,218	43,152	44,714	43,273	46,131	43,194
Exchange rate ($/Ecu[16])	1.27	1.24	1.30	1.17	1.19	1.31	1.27	1.13	1.12	1.07	1.12[17]
Total agricultural spending, US$	36,189	43,035	44,549	45,354	42,412	49,993	54,717	50,710	48,466	49,222	48,377

In general, the EU intends to enhance European agricultural competitiveness by setting product intervention as "a real safety net measure, allowing EU producers to respond to market signals while protecting them from extreme price fluctuations," and promoting market oriented, sustainable agriculture by finishing the transition from product support to producer support, by introducing a "decoupled system of payments per farm" which are not connected to production[18] The EU wishes to allow flexibility in production, but also guarantee income stability to producers. Within the last 10 years, the

[13] USDA-ERS briefing room, http://www.ers.usda.gov/briefing/EuropeanUnion/PolicyCommon.htm. The data from the US differs slightly from EU data due to rounding.
[14] The data for 1999 and 2000 represent EU appropriations rather than actual spending.
[15] The data for 1999 and 2000 represent EU appropriations rather than actual spending.
[16] The ECU, or European Currency Unit, was the predecessor to the Euro.
[17] Instead of the USDA-ERS projection, this is the actual exchange rate for the 2000 marketing year. See The Agricultural Situation in the European Union, 2000 Report, COM (2002) 67 final, Commission of the European Communities at 132.

EU has reduced price supports and increased direct payments to tomato, dairy, and citrus farmers to compensate them for the reductions.

The EU has an arsenal of support mechanisms for domestic agriculture. This paper inventories EU laws that provide the mechanisms for support of domestic agriculture and discusses how they may affect Florida's dairy, tomato, and citrus producers.

By WTO standards, "high" tariffs—17.3% on average—apply at the European border but preferential trade agreements with tariff quotas allow some countries access to the EU markets at reduced rates.[19] These preferential agreements are consistent with WTO regulations, and offer lower tariffs to former colonies, developing nations, and EU neighbors. The US is not a party to any bilateral trade agreements with the EU that reduce the tariff rate for agricultural (or any other) products below the Most Favored Nation rate.

Following the successful negotiation of the 1993 Uruguay Round of GATT (Uruguay), the EU has made attempts at liberalizing agricultural markets, including citrus, tomatoes, and dairy, and moving from market distorting supports to less market distorting regulation.[20] This paper explains the domestic market support mechanisms for citrus, tomatoes and dairy.

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[18] "Communication from the Commission to the Council and the European Parliament: Mid-Term Review of the Common Agricultural Policy", Com (2002) 394 final, Brussels, 10.7.2002 at 1.
[19] "European Union: July 2000" WTO press release, http://www.wto.org/wto/english/tratop_e/tpr_e/tp137_e.htm
[20] "The CAP: History and Attempts at Reform", Richard Howarth, http://www.openrepublic.org/policyanalyses/Agriculture/IEA_REFORMING_THE_CAP/200000601_CAP_HISTORY_AND_ATTMEPTS_AT_REFORM_IEA.pdf , visited 10/17/02.

Support Mechanisms For Citrus

After Uruguay, the EU citrus market underwent some significant changes in 1996 with the reform of the common organization of the fruit and vegetable market.[21] Common organization generally refers to the regulatory system of a particular agricultural sector under the CAP. In addition to the 1996 reforms with respect to many fresh fruits and vegetables—Regulation (EC) No 2200/96 on the common organization of the market in fruit and vegetables and Regulation and (EC) No 2201/96 on the common organization of the market in processed fruit and vegetables— the citrus market is also subject to Regulation (EC) No 2202/96 introducing an aid scheme for producers of certain citrus fruits that has since been duplicated in other markets, including the tomato market. In particular, the scheme[22] provides "compensatory aid" directly to Producer Organizations (PO) delivering oranges and other citrus harvested in the EU for processing in the EU under contracts with processors.[23] PO's are very similar to U.S. cooperatives.

The EU is a major exporter of citrus, exporting 16% of the world lemon production and 12% of world orange production in 2000.[24] The EU also produces mandarins, clementines, and satsumas, but no trade information was available. In 1998,

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[21] Council Regulation (EC) No 2699/2000 amending Regulation (EC) No 2200/96 on the common organization of the fruit and vegetables market, 2201/96 on the common organization of the processed fruit and vegetables market, and 2202/96, which introduced an EU aid scheme for producers of certain citrus fruits. Article (1) "EU aid scheme is hereby established for producer organizations which deliver for processing certain citrus fruits harvested in the EU."

[22] Council Regulation (EC) No 2202/96 of 28 October 1996 introducing a EU aid scheme for producers of certain citrus fruits, *Official Journal L 297, 21/11/1996 P. 0049 – 0052.*

[23] Council Regulation (EC) No 2202/96 of 28 October 1996 Article (2), "The scheme referred to in Article 1 shall be based on contracts between, on the one hand, producer organizations recognized or provisionally admitted under Regulation (EC) No 2200/96 and, on the other, processors or legally constituted associations or unions of processors."

[24] The Agricultural Situation in the European Union, 2000 Report, COM (2002) 67 final, Commission of the European Communities at 69.

EU citrus exports represented 67% of the import level.[25] For the 1999/2000 marketing year, EU citrus production totaled 10.2 million tons, which was up 18% from 1998/99 and roughly equivalent to 1997/8 levels. Spain is the EU's largest producer by far, with 56% of the total citrus production in 1999/2000. Orange production in 2000 was 5.8 million tons, which is a 22% increase over 1998/99.

Export Refunds and Other Trade Policies

Export refunds defray some of the difference between the internal European price and the world market price of citrus to allow the European citrus producers to dispose of excess citrus without affecting internal European prices.[26] As of 1996, an additional duty rate may be levied on certain products entering the EU when "conditions set out in Article 5 of the Agreement on agriculture [article 16] concluded in the framework of the Uruguay Round of multilateral trade negotiations have been fulfilled."[27]

Product Withdrawals

In an effort to preserve high internal prices and to somewhat offset seasonal production gluts, citrus producers may remove citrus from the market via POs. These POs are a collection of producers that are organized and controlled much like cooperatives in the United States, with legal means of exerting otherwise illegal market influence. In 1999, 1008 POs, which represent 40% of the fruit and vegetable

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[25] The Agricultural Situation in the European Union, 2000 Report, COM (2002) 67 final, Commission of the European Communities at 70.

[26] Regulation (EC) No 2200/96 Article 35 (1) "To the extent necessary to enable economically significant quantities of the products listed in Article 1 (2) to be exported on the basis of the prices of these products in international trade but within the limits resulting from agreements concluded in accordance with Article 228 of the Treaty, the difference between those prices and prices in the EU may be covered by export refunds."

[27] Regulation (EC) No 2200/96 Article 33, 1. Certain import volumes or prices trigger these additional duties. Article 34 also set out import quotas for certain products.

production in the EU, "submitted operational programs" necessary for EU financing. In 2000, it was 1120.[28]

Market withdrawals are financed by Operational Funds[29] of POs that, in turn, are funded by levies on producers.[30] POs can withdraw[31] or "not put up for sale" any products covered by the law in whatever quantity and for whatever period they want.[32] This is the case for citrus, tomatoes and dairy. When withdrawals are made, POs must pay their producer members the EU withdrawal compensation up to the ceiling set for the quantity of product withdrawn from market.[33] The POs provide withdrawal compensation up to a EU ceiling set for each marketing year.[34] The present ceilings[35] on withdrawals have been reduced to 10% of marketed product for the 2001/02 marketing year and to 5% from the 2002/3 marketing year and beyond.[36] The average amount of withdrawal compensation for oranges in 2002 was Euro 14.00 per ton, 2000/01 was Euro 14.13 per ton, and 1997/8 was Euro14.33 per ton.[37] The unsold withdrawn products must be disposed of in prescribed ways that do not affect the internal market price.[38] EU

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[28] At 71.

[29] Regulation (EC) No 2200/96, Article 15, 2. Operational funds as indicated in paragraph 1 shall be used to: (a) finance both market withdrawals and processing of citrus fruit on the terms set out in paragraph 3;

[30] Regulation (EC) No 2200/96, Article 15, 1. "EU financial assistance shall be granted on the terms set out in this Article to producer organizations setting up an operational fund. This fund shall be maintained by *financial contributions levied on member producers* on the basis of the quantities or value of fruit and vegetables actually marketed and from the financial assistance…"

[31] The quantities that may be withdrawn from the market are limited by Regulation (EC) No 2200/96

[32] Regulation (EC) No 2200/96, Article 23, 1. "Producer organizations and their associations may choose not to put up for sale products listed in Article 1 (2) contributed by their members, both in quantities and for periods which they consider appropriate."

[33] Regulation (EC) No 2200/96, Article 23, 3.

[34] "Report From the Commission to the Council on the state of implementation of Regulation (EC) No 2200/96 on the common organization of the market in fruit and vegetables" COM (2001) 36 final at 21.

[35] Set by articles 23 and 24 of Regulation (EC) No 2200/96 as a percentage of marketed quantity

[36] Council Regulation (EC) No 2699/2000.

[37] "Report From the Commission to the Council on the state of implementation of Regulation (EC) No 2200/96 on the common organization of the market in fruit and vegetables" COM (2001) 36 final at 23.

[38] Regulation (EC) No 2200/96 Article 30, 1 (b) fruit: free distribution to school children, other than as part of the meals served in school canteens, and to pupils in schools which do not have canteens providing meals

withdrawal compensation limits[39] were reduced to 5% for citrus and 10% for a list of products that includes tomatoes for the 2002/3 marketing year.[40]

Intervention Thresholds and Direct Producer Aid

The 1996 reforms created processing thresholds[41] that are referenced to determine the level of direct aid to producers. A Member State exceeding the processing threshold[42] causes a proportional reduction[43] in the *current* year's aid.[44] Citrus thresholds are set in terms of raw, not processed, products.

As of 2001, the direct aid[45] amounts for citrus remain unchanged, but the processing thresholds have increased.[46] In the 2001/02 marketing year, processing thresholds for oranges increased 26.2% over 2000/01 levels to 1,500,236 tons.[47] For lemons there was a 15% increase to 510,600 tons.[48] The total aid remains largely unchanged.[49] Also, the ceiling for withdrawals[50] from the market fell for 2001/2002 to 10% from 15% of the quantity marketed by producers and to 5% in 2002/2003. This funding can be used to supplement EU withdrawal compensation.[51]

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[39] Set by Council Regulation (EC) 2200/96

[40] Article 3 of Council Regulation (EC) No 2699/2000. For the 2001/3 marketing year, the ceilings were 10% for citrus and 20% for other products. Also, this article allowed growers who are not members of a collective structure to benefit from Article 23 of 2200/96 aid, but EU withdrawal compensation must be reduced by 10%.

[41] Regulation (EC) No 2200/96, article 27.

[42] Council Regulation (EC) No 2202/96 Article (5) 1. Processing thresholds shall be established, on the one hand, for lemons, grapefruit and oranges separately, and, on the other hand, for mandarins, clementines and satsumas taken together

[43] Council Regulation (EC) No 858/1999 of 22 April 1999. Reductions in aid are directly proportional to the threshold overrun.

[44] See Generally Council Regulation (EC) No 2202/96 of 28 October 1996 introducing a EU aid scheme for producers of certain citrus fruits, *Official Journal L 297, 21/11/1996 P. 0049 - 0052*

[45] Council Regulation (EC) No 2202/96 introduces a new aid scheme for certain citrus fruits.

[46] Council Regulation (EC) No 2699/2000.

[47] http://europa.eu.int/comm/agriculture/markets/fruitveg/index_en.htm

[48] http://europa.eu.int/comm/agriculture/markets/fruitveg/index_en.htm

[49] http://europa.eu.int/comm/agriculture/markets/fruitveg/index_en.htm

[50] Regulation (EC) No 2200/96, article 23.

[51] Both oranges and tomatoes may qualify for withdrawal compensation (See Annex II of the article). Regulation (EC) No 2200/96, Article 15, 3 (b). This article also sets limits on the EU withdrawal

Recent increases in EU thresholds are accompanied by reductions in aid per ton[52], so that total expenditures of the EAGGF (European Agricultural Guidance and Guarantee Fund) are unchanged. Prior to 2000, limits in aid to POs was based on two limits, 4.5% of the value of production marketed by each PO, and 2.5% of the total marketed of all POs. Under the new system there is a single ceiling to apply to all POs, 3%. There was an overrun during the 2000/01 marketing year in France and Spain, whose aid for grapefruit and pomelos was reduced for the 2001/02 marketing year by 18.46% and 8.16%, respectively.[53]

Support Mechanisms for Tomatoes

Consistent with the market liberalization trend in Europe, in 2000 the EU made major changes to the common market organization for tomatoes.[54] These changes were to be less market distorting because, while maintaining roughly the same level of aid to European tomato producers, that aid is now somewhat decoupled from production decisions. More market flexibility exists after the 2000 changes, less product can be removed from the market, and supports for exports have declined.

Most importantly, the former quota system of 1996-2000, which was widely suspected of introducing rigidity into the market, was replaced by a more flexible system

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compensation: "The proportion of the operational fund which may be used to finance withdrawals may not exceed 60 % in the first year, 55 % in the second, 50 % in the third, 45 % in the fourth, 40 % in the fifth and 30 % from the sixth year onwards." No more than 50% of the EU support may be used for withdrawals and citrus processing. 5(b): "financial assistance shall be capped at 4 % of the value of the marketed production of each producer organization, provided that the total amount of financial assistance represents less than 2 % of the total turnover of all producer organizations." Council Regulation (EC) No 2699/2000 removes the "total turnover of all producer organizations" limit on financial assistance and increases the financial assistance allowed to each producer organization from 4% to 4.1%.

[52] Reductions in aid are in proportion to the volume of overrun over the threshold set. Council Regulation (EC) No 2699/2000 of 4 December 2000, L 311/14.

[53] Commission Regulation (EC) No 1931/2001.

[54] Council Regulation (EC) No 2200/96 is a major piece of legislation that reformed the common organization of the fruit and vegetables market.

of processing thresholds[55] and corresponding aid reductions.[56] This is almost identical to the citrus threshold system. The processed tomato quota system[57] was based on "compensatory aid" paid to the processor in return for the payment of a minimum floor price to producers with aid fixed by unit weight of product processed.[58]

Except for 1997/8, this quota was consistently overrun from 1996 to 2000.[59] The threshold for 2001/02 is 8,251,455 tons, which is a 20.7% increase over the quota for 2000/01.[60] As of 1998, the EU imports 4% of the world tomato production and exports 7% of the world tomato production.[61] Additionally, very little of the world's fresh tomato production is exported fresh. The leading producers of tomatoes for processing in 1999/2000 were the US (11.6 million tons, vs. 8.5 million in 1998/99), the EU (9.1 million tons vs. 8 million) and Turkey (1.8 vs. 1.7).[62] EU aid was paid on 6.9 million tons, which was the quota tonnage. Except for 1997/8, this quota has consistently been

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[55] Opinion of the Economic and Social Committee on the "Proposal for a Council Regulation amending Regulation (EC) No 2200/96 on the common organization of the market in fruit and vegetables, Regulation (EC) No 2201/96 on the common organization of the market in processed fruit and vegetables and Regulation (EC) No 2202/96 introducing a EU aid scheme for producers of certain citrus fruits" *Official Journal C 014, 16/01/2001 P. 0157 - 0165*.

[56] Council Regulation (EC) No 2699/2000 amending Regulation (EC) No 2200/96 on the common organization of the fruit and vegetables market, 2201/96 on the common organization of the processed fruit and vegetable market, and 2202/96, which introduced an EU aid scheme for producers of certain citrus fruits.

[57] Council Regulation (EC) No 2201/96 of 28 October 1996 on the common organization of the markets in processed fruit and vegetable products, *Official Journal L 297, 21/11/1996 P. 0029 – 0048* Article 6, 1. "A quota system is hereby introduced for granting production aid for products processed from tomatoes. The production aid shall be limited to a volume of processed products corresponding to a weight of 6 836 262 tonnes of fresh tomatoes."

[58] See Council Regulation (EC) No 2699/2000 (6).

[59] http://europa.eu.int/comm/agriculture/markets/fruitveg/index_en.htm

[60] http://europa.eu.int/comm/agriculture/markets/fruitveg/index_en.htm

[61] The Agricultural Situation in the European Union, 2000 Report, COM (2002) 67 final, Commission of the European Communities at 69.

[62] The Agricultural Situation in the European Union, 2000 Report, COM (2002) 67 final, Commission of the European Communities at 132.

overrun thru 2000. The threshold for 2001/02 is 8,251,455 tons, which is a 20.7% increase over the quota for 2000/01.[63]

Export Refunds[64] and Other Trade Policies

Other trade policies include import quotas, tariffs[65], and additional duties on imports[66]. Imports into the EU above a certain level—501,111 tons from October 1 to March 31, and 639,884 tons from April 1 to September 30—trigger additional import duties on tomato products. Favorable bilateral trade agreements—allowed by the WTO under GATT—with tomato producing countries like Turkey and Morocco all but eliminate any potential tomato exports from the US to the EU. As a result of these bilateral agreements, which are highly structured quota arrangements, all of the EU's excess demand is satisfied without American tomatoes.

Product Withdrawals Compensation

This is the same system and set up as in the citrus market. The average amount of withdrawal compensation for tomatoes in 2002 was Euro 4.83 per ton, for 2000/01 was Euro 5.47 per ton, and for 1997/98 was Euro 6.44 per ton.[67] In 2000, EU tomato withdrawals represented 1.2% of EU production.[68] EU withdrawal compensation limits[69], which indirectly limit the amount of product that may be withdrawn from the

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[63] http://europa.eu.int/comm/agriculture/markets/fruitveg/index_en.htm
[64] Council Regulation (EC) No 2200/96
[65] Commission Regulation (EC) No 2201/96(15).
[66] Commission Regulation (EC) No 1512/2000.
[67] "Report From the Commission to the Council on the state of implementation of Regulation (EC) No 2200/96 on the common organization of the market in fruit and vegetables" COM (2001) 36 final at 23.
[68] The Agricultural Situation in the European Union, 2000 Report, COM (2002) 67 final, Commission of the European Communities at 71.
[69] Set by Council Regulation (EC) 2200/96

market, were reduced to 5% for citrus and 10% for a list of products that includes tomatoes for the 2002/3 marketing year.[70]

Intervention Thresholds and Direct Producer Aid

In 2000, the quota system-- EU aid scheme for tomato processing governed by Regulation (EC) No 2201/96(5)-- was replaced by a processing threshold system. The threshold system is meant to be less market distorting than the quota system that made the tomato market too rigid to allow the processors to adapt to market demand fluctuations quickly enough.

The main differences between the old quota system and the new processing threshold system are the minimum price and who actually receives the aid. Under the quota system, aid was paid to the processors who paid at least the minimum floor price, with aid reduced when the quota was exceeded.[71] The threshold system provides aid directly to the producer via POs, and the threshold system has no minimum price, just an amount of aid based on quantity delivered for processing.[72] These recent modifications copied the citrus system, which already had direct payments to POs, in place of the old tomato quota system of compensatory aid to processors who had to pay producers a minimum price set each year by the European Commission, the EU's executive body.

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[70] Article 3 of Council Regulation (EC) No 2699/2000. For the 2001/3 marketing year, the ceilings were 10% for citrus and 20% for other products. Also, this article allowed growers who are not members of a collective structure to benefit from Article 23 of 2200/96 aid, but EU withdrawal compensation must be reduced by 10%.

[71] Commission Regulation (EC) No 504/97 laying down detailed rules for the application of Council Regulation (EC) No 2201/96 on production aid, *Official Journal L 078, 20/03/1997 P. 0014 - 0023*

[72] Commission Regulation (EC) No 449/2001 of 2 March 2001 laying down detailed rules for applying Council Regulation (EC) No 2201/96 as regards the aid scheme for products processed from fruit and vegetables, *Official Journal L 064, 06/03/2001 P. 0016 – 0029,* Article 14, 1. Aid for tomatoes, peaches and pears shall be paid by the competent body of the Member State in which the producer organization signing the contract has its head office, as soon as that body has checked the aid application and established that the products covered by that application have been delivered and accepted for processing, on the basis, in particular, of the checks provided for in Article 18(1)(i).

Under the threshold system, a single EU threshold is fixed by tons of fresh tomatoes intended for processing rather than by tons of processed[73] tomatoes, with a level above the marketing year 2000 quota to allow for expanding demand.[74] When this threshold is surpassed, the following year's aid is reduced to the Member State in proportion to the overrun. In 2002, aid for producers in Member States not exceeding the threshold is 34.50 Euro/ton of fresh tomatoes, regardless of the finished product classification or existing market prices. For the 2000/2001 marketing year, the EU threshold was 8,251,455 tons, which is 20.7% above the old EU quota for 2000/2001. Aid for the 2000/01 marketing year for Member States that did not overrun the threshold was Euro 31,36/ton.[75] For marketing years 2002/3 and 2003/4, the aid is set at Euro 34.50/ton.[76]

In the 2001/02 marketing year, tomatoes were above threshold in some Member States. In these States, the aid is reduced to Euro 31.36 per ton, with a supplement set by the Commission to be paid after the marketing year to producers in Member States that do not exceed the threshold by more than 10%.[77] For the 2001/02 marketing year, the aid supplement[78] is Euro 3.14/ton in Greece, France and Portugal, EUR 2.70/ton in Italy,

[73] Regulation (EC) No 2699/2000 (5). This regulation repeals a number of regulations that set up this support mechanism: Commission Regulation (EEC) No 1709/84 on minimum prices payable to producers and levels of production aid, last amended by Regulation (EC) No 1573/1999(13), Commission Regulation (EEC) No 2022/92 on the rules for applying the minimum price paid to producers for certain tomatoes, and Regulation (EC) No 2201/96 regarding the system of quotas for processed tomato products, as amended by Commission Regulation (EC) No 2807/98(16).
[74] Council Regulation (EC) No 2699/2000 (4)
[75] Article 5(3)(a) of Regulation (EC) No 2201/96.
[76] Article 5(3)(b) of Regulation (EC) No 2201/96.
[77] Article 5(3)(a) of Regulation (EC) No 2201/96. Any 2002/03 marketing year overrun of the processing threshold will by calculated based on the 2001/02 quantity supplied for processing.
[78] Article 5(3)(a) of Regulation (EC) No 2201/96.

Euro 3.14/ton in Spain for tomatoes intended for processing into whole peeled tomatoes, Euro 0.10/ton in Spain for tomatoes intended for processing into other tomato products.[79]

Direct aid to producers is reduced when thresholds are overrun.[80] For 2001/2, determination of whether the threshold is overrun is based on the quantity of tomatoes processed during the year.[81] For the 2002/3 year, this determination is based on the previous year's quantity. For the 2003/4 year, threshold overrun is based on the average quantity from the first and second years.[82]

After the 2000 reform, there is a new, higher ceiling on the amount of aid that is granted to POs.[83] This ceiling-- 4.1% production ceiling, which is a higher ceiling on direct aid to producers from January 2001[84]-- replaces two ceilings on aid to producers, 4.5% of the value of production and 2.5% of total turnover of all producers. The ceiling is meant to place a limit on the amount of subsidies from the EU to the producers. Total aid to POs may not exceed either of these ceilings. The support for the tomato processors is expected to be at roughly the same level as 1999/2000. For the 2001/2 marketing year, the direct aid to POs (and some individual producers satisfying the same requirements) for tomatoes that go to processing was Euro 34.50/ton.[85] For the 2001/2 marketing year, individual producers were also eligible for this aid for a quantity not more than 25% of

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[79] Article 1 of Commission Regulation (EC) No 175/2002

[80] See Commission Regulation (EC) No 1931/2001 reducing the amount of aid for grapefruit and pomelos for the 2001/02 marketing year after the processing threshold for 2000/01 was exceeded.

[81] Article 5 (3) of Council Regulation (EC) No 2699/2000.

[82] Article 5 (4) of Council Regulation (EC) No 2699/2000.

[83] Council Regulation (EC) No 2200/96. Commission Regulation (EC) No 1144/2001 fixes, for Regulation (EC) No 411/97, a ceiling for EU aid granted to producer organizations that set up operational funds for 2000. Regulation (EC) No 411/97 was repealed in 2001 by Commission Regulation (EC) No 609/2001, setting a new ceiling for aid and replacing the double ceiling with a single ceiling.

[84] Amending Regulation (EC) No 2200/96 on the common organization of the market in fruit and vegetables, Regulation (EC) No 2201/96 on the common organization of the market in processed fruit and vegetables and Regulation (EC) No 2202/96 introducing a EU aid scheme for producers of certain citrus fruits.

[85] Council Regulation (EC) No 2699/2000 (4) (2).

the amount contracted for marketing.[86] For the 2002/03 marketing year, the direct aid to POs for processing[87] is set at Euro 34.50/ton in Greece, France and Portugal, Euro 34.06/ton in Italy, Euro 34.50/ton in Spain for tomatoes intended for processing into whole peeled tomatoes, and Euro 31.46/ton in Spain for tomatoes intended for processing into other tomato products. The EU aid scheme for POs supplying tomatoes was set up by Council Regulation (EC) No 2699/2000 (2).

Support Mechanisms for Dairy

In 2001, the EU was both the largest producer and the largest consumer of cow's milk in the world, with 21.3% and 21% respectively, compared to the US' 13.1% and 12%.[88] Only 6.9% of world milk production (40.8 million tons) was traded in 2001.[89] Almost none of that is liquid milk. The bulk of trade is in the form of butter, cheese, and powdered milk.[90] About 2/3 of EU milk production is used for butter, cheese, or skim milk.[91] In 1997, farms with fewer than 50 cows accounted for 52% of all dairy cattle in the EU, versus 68.5% in 1985.[92] In 1995, the average number of dairy cows per farm was only 23.[93] Given this status, the broad and highly structured supports for the dairy sector are not unexpected.

Support mechanisms affecting milk include public intervention, intervention prices, private storage aid, domestic consumption aid (or disposal aid), milk quotas, and

[86] Regulation (EC) No 2699/2000 (3)(1).
[87] Article 2 of Regulation (EC) No 2201/96 provides for an aid scheme to assist producer organizations delivering tomatoes, peaches and Williams and Rocha pears for processing
[88] In tons of milk. Report on Milk Quotas, Commission of the European Communities, SEC (2002) 789 final, p. 5.
[89] Report on Milk Quotas, Commission of the European Communities, SEC (2002) 789 final, p. 5.
[90] Report on Milk Quotas, Commission of the European Communities, SEC (2002) 789 final, p. 5.
[91] Special Report No 8/2000 on the EU measures for the disposal of butterfat accompanied by the Commission's replies, *Official Journal C 132, 12/05/2000 P. 0001 - 0032*
[92] Special Report no 6/2001 on milk quotas, together with the Commission's replies, *Official Journal C 305, 30/10/2001 P. 0001 – 0034* (24).

export refunds.[94] Of these, only disposal is a demand-side mechanism. These mechanisms are used to achieve a target price for milk sold at the producer level. The current target price for fluid milk is 309.8 Euro/ton at 3.7% fat.[95] Maintaining the target price is the principal objective of all of the dairy support mechanisms, including public intervention and export refunds.

These support mechanisms are expensive to both consumers and taxpayers. Maintaining the target price results in milk producers receiving 54 percent of their revenue from the EU for an estimated cost of over 20 billion euro a year.[96] In addition to higher prices paid for the products, taxpayer's pay for these subsidies, with expenditures on subsidies to the dairy market at Euro 2.5 billion per year as of 2000.[97] Although still high, support levels in total for dairy have fallen considerably since 1983, from 4285.3 million Euros in 1983 to 2601.3 million Euros in 1999.[98] Since 1995, almost 28% of the quantity of butter consumed in the EU has been granted EU aid[99] representing about 30% of market price, and skim milk powder aid (fixed at 35% of the market price) was paid on more than half of the EU consumption level.[100] In 2000, nearly 25 million tons of milk equivalent was disposed of (i.e. demand-side aid) at a cost of 2601 million Euros.

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93 "Agriculture, Environment, Rural Development – Facts and Figures" 3/16/2001, http://europa.eu.int/comm/agriculture/envir/report/en/live_en/report.htm

94 Report on Milk Quotas, Commission of the European Communities, SEC (2002) 789 final, p. 6; See also Regulation (EC) No 1255/ 1999, part of Agenda 2000; See also the milk quota regime Council Regulation (EEC) No 856/84 and Council Regulation (EEC) No857/84, derogated by Regulation (EEC) No 3950/92, and later amended by Regulation (EC) No 1256/1999 for Agenda 2000.

95 Report on Milk Quotas, Commission of the European Communities, SEC (2002) 789 final, p. 7.

96 Special Report no 6/2001 on milk quotas, *Official Journal C 305, 30/10/2001 P. 0001 - 0034*. The "producer subsidy equivalent" for milk is 54% of the value of output compared to 44% for all agricultural products.

97 Special Report no 6/2001 on milk quotas, *Official Journal C 305, 30/10/2001 P. 0001 – 0034*.

98 Special Report no 6/2001 on milk quotas, *Official Journal C 305, 30/10/2001 P. 0001 - 0034*
Milk and milk-products sector expenditures have decreased from 4285.3 million euros in 1983 to 2601,3 million euros in 1999.

99 Special Report No 8/2000 on the EU measures for the disposal of butterfat accompanied by the Commission's replies, *Official Journal C 132, 12/05/2000 P. 0001 - 0032*

Additional levy payments, or penalties on producers for exceeding the dairy quota, recaptured 16% of these expenditures from producers.[101]

Intervention and Direct Producer Aid

Intervention mechanisms exist for butter and skim milk powder. Each Member State's intervention agency must buy skim milk powder at the intervention price from March 1 to August 31 each year, but the Commission may suspend the buying if quantities exceed 109,000 tons.[102] The product purchased is state property held in storage. When the price of butter in a Member State falls below 92% of the intervention price during a certain period, the Member State must buy butter at a price set by the Commission that may not be lower than 90% of the intervention price.[103] There is no intervention quantity limit for butter.

Aid For Private Storage

Public stocks of skim milk powder and cheese may qualify for private storage aid if a serious market imbalance exists that could be ameliorated by seasonal storage.[104] The amount of aid is determined by actual storage costs. The Commission may require that the Member State's intervention agency remarket some of the products if market conditions so require.

Disposal Aid

This aid includes several measures used to stimulate dairy consumption, including aid for use of skim milk and butterfat for animal feed, aid for supplying schools with

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[100] Special Report no 6/2001 on milk quotas, *Official Journal C 305, 30/10/2001 P. 0001 - 0034*
[101] Special Report no 6/2001 on milk quotas, *Official Journal C 305, 30/10/2001 P. 0001 - 0034*
[102] Report on Milk Quotas, Commission of the European Communities, SEC (2002) 789 final, p. 7.
[103] Report on Milk Quotas, Commission of the European Communities, SEC (2002) 789 final, p. 7.
[104] Council Regulation (EC) No 1255/1999 granting private storage aid for butter, cheese, and cream; regarding intervention for butter and cream; regarding import arrangements for milk products and setting tariff quotas.

milk, and, when public stocks build up, the Commission may grant aid to promote cream, butter and concentrated butter purchases at reduced prices by certain groups.[105] These groups include non-profit groups, Member States' military, producer of pastries, ice cream, and "other foodstuffs," and consumers of concentrated butter.[106] In 2000, disposal aid expenditure was Euro 449 million for butter and Euro 708 million for skim milk.[107] The aid for milk to schoolchildren was 89 million Euros in 1999.[108] In 1998, disposal aid represented 20% of the total EU milk sector expenditures.[109] These are the latest figures available.

Export Refunds

To maintain internal dairy prices, export refunds are paid to help remove excess supply. These are given to exporters to make up the difference between world market prices and EU prices and they are the same rate for the entire EU.[110] The refund rates and quantities are set each year by the Commission according to market needs in order to maintain the target price, and are ultimately controlled via a system of export licenses issued each year.[111] Together with internal consumption subsidies, export refunds cost the EU budget 3 billion Euros per year in 2000 with almost 15 million tons of subsidized

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[105] Council Regulation (EC) No 1255/1999 of 17 May 1999 on the common organization of the market in milk and milk products, *Official Journal L 160, 26/06/1999 P. 0048 - 0072*
[106] Article 13 of Council Regulation (EC) No 1255/1999 of 17 May 1999 on the common organization of the market in milk and milk products, *Official Journal L 160, 26/06/1999 P. 0048 - 0072*
[107] Report on Milk Quotas, Commission of the European Communities, SEC (2002) 789 final, p. 7.
[108] Special Report no 6/2001 on milk quotas, *Official Journal C 305, 30/10/2001 P. 0001 - 0034*
[109] Special Report No 8/2000 on the EU measures for the disposal of butterfat accompanied by the Commission's replies, *Official Journal C 132, 12/05/2000 P. 0001 - 0032*
[110] See Commission Regulation (EC) No 174/1999 setting detailed rules for applying Council Regulation (EEC) No 804/68 regarding export licenses and export refunds for milk products.
[111] Commission Regulation (EC) 174/1999

export of dairy products.[112] The resulting expenditure on export refunds (ECU 420 million in 1998) is also less than half of the maximum amount permitted. [113]

Milk Quota Regime

Since 1984, quotas have been used to stabilize prices by constraining production to keep it in line with projected consumption. Quotas were initially allocated to each country and to each producer in 1984 based on historical production and new quotas levels were negotiated for new EU members as they joined the EU.[114]

Quotas are set by volume and adjusted by milk fat content.[115] Under the quota system, an "additional levy", set at 115% of the target price of milk, is charged to the producer for all volume above the quota set by the Council for each Member State for a given year.[116] Exceeding the reference milk fat level triggers an "additional levy" of 155% of the milk target price. [117] All producers who caused the oversupply by exceeding their individual quotas are charged the levy.

Quota overruns at the producer or farm level can be offset by other individual quota shortfalls or unused quotas in any manner decided by the Member State.[118] The

[112] Special Report no 6/2001 on milk quotas, *Official Journal C 305, 30/10/2001 P. 0001 - 0034*
[113] Special Report No 8/2000 on the EU measures for the disposal of butterfat accompanied by the Commission's replies, *Official Journal C 132, 12/05/2000 P. 0001 - 0032*
[114] Special Report no 6/2001 on milk quotas, *Official Journal C 305, 30/10/2001 P. 0001 – 0034, p.11*
[115] Special Report no 6/2001 on milk quotas, together with the Commission's replies, *Official Journal C 305, 30/10/2001 P. 0001 – 0034* (62-3).
[116] Council Regulation (EEC) No 3950/92 establishing an additional levy on milk products.
[117] Special Report no 6/2001 on milk quotas, together with the Commission's replies, *Official Journal C 305, 30/10/2001 P. 0001 – 0034* (62-3).
[118] Special Report no 6/2001 on milk quotas, together with the Commission's replies, *Official Journal C 305, 30/10/2001 P. 0001 – 0034* (41-2). "In France, offsetting is kept to a minimum and even in years where no national overrun occurs farmers who overproduce may have to pay a levy, the proceeds of which go to national restructuring measures. In the United Kingdom, offsetting arrangements at both the national and the purchaser levels allow farmers to trade their quota, fine-tuning their individual quota according to the latest estimates of national overrun. At the extreme, cases were seen where farmers, believing that no levy would be payable in a particular year, transferred out 100 % of their available quota (for financial

levy is charged to the individual dairy producers by milk purchasers, or to direct sellers of the milk by the authorized national administration.[119] If it were charged to the countries rather than the producers, then it would effectively be a subsidy from the Member State to the producers of that State, defeating the purpose of the quota. Today, quotas may not be traded between countries, but can be transferred within each country according to individual country regulations. In France, for example, the quotas are attached to the land.[120] Smaller farmers tend to receive reallocated quotas in the Member States.[121]

The original quota level was 103.7 million tons in 1984.[122] In 1992, the total quota was reduced by 10.5% for the 10 Member States, but increased by 13.8 million tons to allow for Spain and Portugal joining the EU and to allow for German reunification.[123] For the 1992/3 marketing year, the total quota was 106.9 million tons. Italy, Spain, and Greece negotiated a 1.6 million ton quota increase in 1993, and Austria, Sweden, and Finland negotiated an 8.4 million ton quota increase when they became Member States in 1995.[124] Finally, Agenda 2000, explained below, will increase the quota by 2.4% from a 1999/2000-reference year when it takes effect in 2005.[125] Unless changed, the milk quota system is set to expire in 2006.

Quotas and intervention prices have opposite effects. Quotas are a production limiting mechanism that is meant to maintain high internal prices, but the relatively high intervention price causes milk producers to produce up to the quota maximum even when

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gain) only to find that they were liable to a levy on their entire production when in fact a national overrun of quota did occur."

[119] Special Report no 6/2001 on milk quotas *Official Journal C 305, 30/10/2001 P. 0001 - 0034*

[120] Special Report no 6/2001 on milk quotas, *Official Journal C 305, 30/10/2001 P. 0001 – 0034, p.11*

[121] Special Report no 6/2001 on milk quotas, *Official Journal C 305, 30/10/2001 P. 0001 – 0034*

[122] See Report on Milk Quotas, Commission of the European Communities, SEC (2002) 789 final, p. 8.

[123] See Report on Milk Quotas, Commission of the European Communities, SEC (2002) 789 final, p. 9.

[124] See Report on Milk Quotas, Commission of the European Communities, SEC (2002) 789 final, p. 9.

the quota would not be a limiting factor. This leads to accruals of public intervention stocks. Export subsidies and import restrictions would aid the quotas in maintaining high internal prices.[126]

Agenda 2000

In response to a Court of Auditors[127] requirement for "a fundamental reform of the dairy sector aiming at achieving equilibrium between overall milk production and unsubsidized internal consumption plus potential unsubsidized exports while ensuring a fair standard of living for dairy farmers and allowing the quota regime to expire," Agenda 2000, an extension of the 1992 reform for market policy, represents a significant step towards CAP reform. Contained in the Agenda 2000 agreement were important changes for the dairy market.

Under the original Agenda 2000 proposal, market prices would decline via a 15% cut in intervention support prices in four steps from 2000 onward and a 2% increase in quotas while compensation is paid to farmers. However, in March 1999 the European Council delayed the main elements of this reform until the 2005/6 marketing year[128], with the reform phased-in over three years and the quota increased by 2.4% from a 1999/2000 reference year for some Member States and a flat-rate increase of 1.5% for the remaining Member States in the 2005/6 – 2007/8 periods.[129] These reforms are projected to effectively improve market balance, cause intervention stocks to fluctuate at low levels, reduce reliance on export refunds, and significantly lower internal consumption aids;

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[125] "Communication from the Commission to the Council and the European Parliament: Mid-Term Review of the Common Agricultural Policy", Com (2002) 394 final, Brussels, 10.7.2002 at 17.
[126] Report on Milk Quotas, Commission of the European Communities, SEC (2002) 789 final, p. 11.
[127] The Court of Auditors reviews European Union outlays and expenditures to ensure that they are lawful.
[128] Council Regulation (EC) No 1256/1999 (3) amends Regulation (EEC) No 3950/92 establishing an additional levy in the milk and milk products sector.

Direct payments to producers are expected to adequately compensate them for price reductions.[130] They would be introduced in three equal steps over three years from 2005/6 marketing year in the form of direct payments to producers called dairy premia (5.75 Euros going to 17.24 Euros per ton of quota) and additional payments, including "top-up" premia and regional payments.

The full effect of the Agenda 2000 reforms will not be felt until 2008 and the EU is already considering four alternatives for 2008-2015. First, continuation of Agenda 2000 thru 2015. Second, Repeating the Agenda 2000 approach by further increasing quotas (+3%) and reducing intervention prices (-15% butter and –5% skimmed milk powder). Third, introducing a 2-tiered quota system under which EU quotas are reduced by 5% to establish a domestic quota, while export quotas would be unlimited and export refunds and disposal aids would be cancelled. Lastly, the final reform is the removal of the Quota System altogether in 2008 and cutting intervention support by an additional 25%.

Significant reform of the milk sector along these lines is scheduled to begin in 2005.[131] The present milk quota arrangements will run out after 2006.[132] Recent dairy CAP reform includes a quota increase and a 15% drop in intervention prices for butter and skimmed milk powder.[133]

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[129] "Communication from the Commission to the Council and the European Parliament: Mid-Term Review of the Common Agricultural Policy", Com (2002) 394 final, Brussels, 10.7.2002 at 17.
[130] "Communication from the Commission to the Council and the European Parliament: Mid-Term Review of the Common Agricultural Policy", Com (2002) 394 final, Brussels, 10.7.2002 at 17.
[131] "Communication from the Commission to the Council and the European Parliament: Mid-Term Review of the Common Agricultural Policy", Com (2002) 394 final, Brussels, 10.7.2002 at 6.
[132] "Communication from the Commission to the Council and the European Parliament: Mid-Term Review of the Common Agricultural Policy", Com (2002) 394 final, Brussels, 10.7.2002 at 11.
[133] "Communication from the Commission to the Council and the European Parliament: Mid-Term Review of the Common Agricultural Policy", Com (2002) 394 final, Brussels, 10.7.2002 at 13.

Conclusion

European Union (EU) consumers pay almost twice the competitive world price for many agricultural products. Agricultural subsidies accounted for almost half of the EU's total budget (US$ 40 billion on agriculture in 2000) although agriculture represented 1.7 percent of the EU's GDP and employs 4.3% of the EU's population. Domestic policies for citrus and tomatoes include export refunds, product withdraws from the market, intervention thresholds, and direct producer aid. Domestic policies for dairy include export refunds, intervention thresholds, aid for private storage, disposal aid, and milk quotas. The EU's intentions are to enhance agricultural competitiveness by setting product intervention as "a real safety net measure, allowing EU producers to respond to market signals while protecting them from extreme price fluctuations," and promoting market oriented, sustainable agriculture by finishing the transition from product support to producer support, by introducing a "decoupled system of payments per farm" which are not connected to production. The EU wishes to allow flexibility in production, but also guarantee income stability to producers. Within the last 10 years, the EU has reduced price supports and increased direct payments to tomato, dairy, and citrus farmers to compensate them for the reductions.