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The Common Agricultural Policy: Implications for the Fruit and Vegetable Sector in an Enlarged European Community

by

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The Common Agricultural Policy: Implications for the Fruit and Vegetable Sector in an Enlarged European Community

On January 1, 1986, Spain and Portugal joined the European Community (EC), bringing the membership of the Community to twelve countries. 1/ This enlargement, which increases the total agricultural area in the EC by nearly one third, will put renewed strain upon the Community's ability to support incomes and regulate production, prices, and trade in the agricultural sector through its Common Agricultural Policy (CAP).

One of the sectors most affected by the enlargement is fruit and vegetables. Spanish accession alone increases fruit and vegetable production in the Community by over 30 percent, and citrus production by over 75 percent. The Community will move to almost complete self-sufficiency in temperate fruit and vegetables and to 89 percent self-sufficiency in citrus fruit (Agra Europe 1985). Within the Mediterranean regions of the Community of ten (EC-10), fruit and vegetable growers have expressed great concern over the potential impact of opening the EC market to the unrestricted entry of Spanish produce. The Common Agricultural Policy's fruit and vegetable regimes will play an important role in determining the Community's ability to absorb the increased levels of production, as well as the response of the Spanish and Portuguese fruit and vegetable sectors to EC membership.

The objectives of this paper are

(1) to briefly describe selected instruments of EC policy for fruit and vegetables; and

(2) to discuss the economic implications of these policy instruments for the fruit and vegetable sector in an enlarged European Community. The discussion of enlargement will focus upon Spain because of its overwhelming importance relative to Portugal in the fruit and vegetable sector.

THE COMMON AGRICULTURAL POLICY FOR FRUIT AND VEGETABLES

The CAP was established in 1957 by the Treaty of Rome, and covers over 95 percent of agricultural production in the Community (EC Commission 1984). The objectives of the CAP are improved productivity, equitable farm incomes, market stability, reliability of supply, and reasonable consumer prices. The CAP is based upon three underlying principles: removal of all barriers to intra-Community trade, preference for Community production over imports, and the provision of Community financing for agricutural mechanisms.

Management rules for the various agricultural products are applied uniformly throughout the Community by means of "common organizations" of the markets for each commodity group. Two market organizations exist for fruit and vegetables: one for fresh products and one for processed.

The common organization of the market for fresh fruit and vegetables was implemented in 1968. The market regime applies to all fruit, nuts, and vegetables grown in the Community, with the exception of peas and beans for feed, wine grapes, and olives for pressing, which are covered by separate market organizations, and potatoes and certain tropical fruits, which are not covered under the CAP. The policy is based upon the establishment of quality standards and relies heavily upon producer organizations for market management. The common organization of the market for processed fruit and vegetables was instituted in 1978, and covers a relatively small range of products. Together, the market organizations for fruit and vegetables currently account for between 6 and 8 percent of total guarantee expenditures under the European Agricultural Guidance and Guarantee Fund (EAGGF) (Table 1). 2/

Spain and Portugal will gradually adopt the internal and external support mechanisms of the fresh fruit and vegetable regimes over a ten year transition period. For Spain, the first phase of the transition period, the "verification of convergence phase," will last four years, from March 1, 1986 through December 31, 1989. The second phase will last six years, from January 1, 1990 through December 31, 1995. The processed fruit and vegetable regime will be phased in over seven years in both Spain and Portugal.

External Support Mechanisms

External protection provides the core of EC support for the fresh fruit and vegetable sector. All produce imported from third countries is subject to a Common Customs Tariff (CCT), which varies according to the product, season, and country of origin. The EC gives preferential tariff treatment for a variety of commodities from certain third countries, notably Mediterranean, African, Caribbean and Pacific countries.

A reference price system operates for 18 sensitive products. If the entry price of a third country product falls below the reference price, a countervailing charge is imposed on subsequent shipments of the product from that country, and is removed once the price has risen above the reference price for a specified period.

Table 1. EAGGF Guarantee Section Expenditure on Fruit and Vegetable Sector, 1975-1984

	Total EAGGF 1/ Guarantee Expenditure (All Agricultural Commodities)	Fruit and Vegetable Expenditure				
		Total Fruit and Vegetable		Withdrawal	Processing aids	Export refunds
			% of total EAGGF Guarantee			
1975 2/	4,727.1	90.3	1.9	48.5	6.9	34.8
1976 2/	5,570.0	244.4	4.4	165.9	21.1	57.3
1977 2/	6,662.4	186.2	2.8	104.5	29.7	52.0
1978 3/	8,672.7	100.7	1.2	24.0	28.8	47.9
1979 3/	10,314.5	416.5	4.0	71.7	309.2	35.6
1980 4/	11,016.7	687.3	6.2	91.3	554.7	41.3
1981 4/	11,141.0	641.1	5.8	106.0	492.3	42.8
1982 4/	12,092.5	852.6	7.1	120.0	654.0	78.6
1983 4/	15,544.0	1,196.0	7.7	303.5	834.5	58.1
1984 4/	18,400.9	1,343.0	7.3	340.0	939.0	64.0

1/ European Agricultural Guidance and Guarantee Fund.
2/ Million units of account (UA).
3/ Million European units of account (EUA).
4/ Million European currency units (ECU).

Source: CAP Monitor. Agra Europe, 1985.

One important feature of the reference price system for third countries is that the "entry price" of a third country product is not an observed price, but is calculated as the price actually received in EC markets minus all import charges. Thus, the reference price plus the import charges defines a "minimum import price" in the EC market, below which a third country's price may not fall; otherwise, a countervailing charge is incurred. For third countries with preferential tariff rates, the entry price is calculated as though the full tariff rate had applied. Thus, third countries with preferential rates must continue to respect the same minimum import price in EC markets as other third countries. This system prevents price competition among third countries which are able to supply the EC market at the minimum import price or lower (Ritson and Swinbank).

A second important feature is that, in practice, once the countervailing charge is imposed, it tends to rapidly reach prohibitive levels. As a result, third countries respect the reference price level voluntarily and the countervailing charge is rarely imposed.

During the first four years of transition, the CCT on EC imports from Spain will be reduced by 10 percent each year. During this period, Spain will continue to observe the same reference price as other third country exporters. The CCT reduction will lower costs for Spanish exporters, and the price of Spanish produce in the EC may fall accordingly; however, the price is still prevented from falling below the minimum import price. To the extent that Spain is currently able to supply the market at the reference price level, the Spanish competitive position vis-a-vis third countries will not be improved during the first phase of transition.

During the second phase of transition, the CCT applied to Spain will be reduced by 25 percent in the first year, 15 percent in the second year, and 4 percent in each of the remaining 4 years. The reference price for Spain will be replaced by a Community offer price, to be calculated on the basis of prices and costs in the Community. The offer price cannot exceed the level of the reference price applied to third countries. When the Spanish entry price falls below the offer price, a corrective amount equal to the difference between the two will be applied.

During this phase, calculation of the Spanish entry price will be based upon the reduced CCT for Spain. Thus, the minimum import price for Spanish produce will be reduced by the amount of the CCT reduction plus the difference, if any, between the Spanish offer price and the third country reference price. Spain will thereby gain a price advantage vis-a-vis third countries equal to at least the amount of the CCT reduction in that year. The full amount of the price advantage will depend upon the relative levels of the reference and offer prices set by the EC, and upon production costs in Spain.

The precise effect of the lower minimum import price on the supply of Spanish produce to the EC is difficult to predict on the basis of current Spanish exports to the EC. The nature of the reference price system, whereby third countries voluntarily respect a minimum import price in order to avoid the imposition of countervailing duties, obscures information on the availability of produce at lower prices (Ritson and Swinbank).

The full impact of Spanish accession will be felt at the end of the ten year transition period, when EC barriers to Spanish produce have been entirely eliminated. The reference price system was conceived to protect the EC from competition from lower cost producers during the EC marketing season. As a major fruit and vegetable producer and exporter with similar growing seasons for a wide range of products grown in the EC-10, Spain was one of the principal countries from which EC producers were intended to be protected. The experience of the British glasshouse sector, which was all but devastated by competition from the Dutch when the UK joined the EC, illustrates the potential hazards of opening a protected market to outside competition (Hinton).

The full impact on the Community's fruit and vegetable sector of the unrestricted circulation of Spanish produce will depend upon the evolution of production costs in Spain throughout and after the transition period, the supply response for individual commodities, and technological change and structural improvement in Spanish fruit and vegetable production, as well as upon developments in the EC-10 fruit and vegetable sector.

Internal Support Mechanisms

The principal support mechanism for domestic fresh fruit and vegetables is the withdrawal of produce for which the price has fallen below an established buying-in price. The withdrawal price received by producers is set at a level which is intended to avert a drastic decline in prices but not to act as a price support.

Due to the fact that withdrawal prices are not regionally differentiated, the price supporting effect is higher in regions far from the market than in regions near the market. The result is a regional distortion of competitive conditions in favor of surplus markets (Alvensleben). Enlargement is likely to aggravate this problem, as the distances between the surplus fruit and vegetable producing regions of Spain and the major European markets are quite large.

One result of the withdrawal system has been the development of chronic surpluses in certain commodities in which the Community is less than self-sufficient. In 1983/84 the Community financed the withdrawal of 1.3 million tons of citrus, over a quarter of EC production, while in the same year 7.8 million tons were imported from third countries. A chronic surplus has developed in the case of mandarins, for which withdrawn produce accounted for over 30 percent of EC production on average in the last five years, exceeding 60 percent in 1983/84 (Table 2).

If the supply elasticity of fruit and vegetable production is relatively high, as has been suggested (Alvensleben), then EC withdrawal prices which are high relative to Spanish prices, production costs, and transportation costs, could provide a strong incentive to production of CAP-protected fruits and vegetables. Although the short run impact may be to increase incomes, which is one objective of this policy, the long run effect of the withdrawal system is likely to be the development of structural surpluses. The hazards of open-ended price supports have been amply demonstrated by the persistence of surpluses in the EC cereals, sugar, and dairy sectors. The cost to the CAP of fruit and vegetable withdrawal has more than tripled since 1981 (Table 1); without the imposition of some system of restraint, or the development of alternative markets, it is likely to add to the already considerable burden of agricultural surpluses on the Community budget.

Processing Aids

In 1978 the EC established an aid system for certain processed fruits and vegetables, as part of a broad program to assist Mediterranean agricultural producers in the Community. Under this system, aids are paid

Table 2. EC Fruit and Vegetables Delivered into Intervention, 1973/74-1983/84

	Apples		Pears		Peaches		Oranges		Mandarins	
	Quantity 1/	Percentage 2/	Quantity	Percentage	Quantity	Percentage	Quantity	Percentage	Quantity	Percent
1973/1974	403,361	6.29	260,579	11.21	21,096	1.21	71	0.01	12,749	3.71
1974/1975	42,884	0.73	209,597	8.14	79,907	4.64	187,946	10.61	3,146	0.90
1975/1976	827,281	10.95	176,468	7.34	35,183	2.79	44,066	2.79	43,419	11.63
1976/1977	167,189	2.57	330,405	12.37	357,882	18.50	322,450	16.89	37,282	9.92
1977/1978	2,713	0.05	41,758	2.10	59,887	3.91	18,171	1.10	27,696	7.47
1978/1979	376,974	5.50	26,570	1.20	38,262	2.50	104,615	6.50	53,123	14.60
1979/1980	548,938	7.89	54,131	6.96	111,090	6.61	2,737	0.16	78,215	36.14
1980/1981	517,798	7.33	162,927	5.58	55,620	3.35	101,091	6.61	53,025	27.91
1981/1982	53,733	1.07	120,677	5.35	343,937	15.22	73,243	2.95	82,032	27.99
1982/1983	1,146,932	13.43	90,510	3.80	239,656	10.98	126,914	5.71	14,653	5.58
1983/1984	119,240	1.94	152,581	6.22	330,893	14.19	456,195	16.73	184,393	60.26
Average	382,640	5.25	133,025	6.39	152,087	7.63	130,682	6.37	53,612	18.60

	Table Grapes		Cauliflower		Tomatoes		Apricots		Eggplant	
	Quantity	Percentage	Quantity	Percentage	Quantity	Percentage	Quantity	Percentage	Quantity	Percent
1973/1974	0	0	14,984	0.97	37,420	0.84				
1974/1975	83	0	9,775	0.62	15,924	0.31				
1975/1976	--	0	19,851	1.39	135,911	2.95				
1976/1977	1,245	0.12	12,611	0.90	21,070	0.49				
1977/1978	26	0	36,646	2.61	20,579	0.45				
1978/1979	19	0	43,460	2.80	19,635	0.40				
1979/1980	--	--	40,732	2.94	197,100	3.06				
1980/1981	530	0.04	13,217	0.91	78,879	1.30	0	0		
1981/1982	0	0	12,069	0.73	56,121	0.72	0	0		
1982/1983	0	0	40,108	2.36	54,380	0.70	343	0.10	32	0.01
1983/1984	0	0	27,116	1.65	29,649	0.32	49,786	12.51	335	0.08
Average	190	.02	24,597	1.63	60,549	1.05	12,532	3.15	184	0.05

1/ Thousand kilograms.
2/ Quantity withdrawn as percent of EC production.

Source: The Agricultural Situation in the Community, Commission of the European Communities, various years.

to processors of specified products who have contracted to pay growers an established minimum price for the raw material. The purpose of the minimum grower price/processing aid system is to allow higher priced EC products to compete with imports on an equal basis, with the aids to be set at levels which will make up the difference between prices of Community and third country products.

The effect of processing aids on production varies by commodity. Surplus production of tomatoes and processed tomato products was observed almost immediately after implementation of the aid scheme. Between the end of 1977 and 1980, stocks of EC tomato concentrates had risen from 58 thousand to 200 thousand tons. By 1979/80, total tomato production had increased by 40 percent over the 1977/78 level, and by 1983/84 had doubled, in spite of the imposition in 1982 of guarantee thresholds to limit increases in production.

Processing aids have helped change the EC from a major importer to a significant exporter of canned peaches. Although a similar type of aid was made available to citrus processors as part of an overall citrus aid package established in 1969, increases in citrus processing have been minimal. The effectiveness of processing subsidies appears to be related to the size of aid, as well as to the level and development of the processing industry and domestic consumption levels for the product in question.

CONCLUSIONS

The effectiveness of EC policy in preventing major disruptions in the enlarged fruit and vegetable sector will depend not only upon current regulations, but also upon policy changes to be negotiated during the transition period. The fruit and vegetable regimes are among the weakest of the CAP market organizations. This weakness is partially attributable to the high degree of perishability of fruit and vegetables, and to the heterogeneity of the product group. The CAP has been highly criticized, however, for reflecting the political dominance of the Northern countries in its bias in favor of the traditional temperate products, principally cereals, sugarbeets, dairy and livestock. The addition of Spain and Portugal this year, and of Greece in 1981, has substantially increased the weight of the Southern countries within the Community. This southward shift of the center of the Community may give the Mediterranean countries the political force to obtain stronger support for the Mediterranean products.

Other pressures on the CAP for fruit and vegetables are likely to result from the burden on the budget from increased spending on fruit and vegetable support, as well as from the conflict between the interests of EC fruit and vegetable producers and the preferential trade agreements with non-EC Mediterranean countries.

These pressures, combined with the prevailing awareness within the Community of the need for overall CAP reform, point to the great likelihood of changes in the CAP for fruit and vegetables within the next few years. The long transition period allows time for thorough analysis of policy options, and the opportunity exists for the development of a balanced policy able to more effectively protect production and trade in the EC fruit and vegetable sector.

NOTES

1/ The ten member states of the European Community as of December 31, 1985 were Belgium, Denmark, Federal Republic of Germany, France, Greece, Ireland, Italy, Luxembourg, Netherlands, and the United Kingdom. Spain and Portugal joined the EC on January 1, 1986.

2/ The EAGGF, which accounts for between 60 and 70 percent of the total EC budget, finances the CAP. The Guarantee Section finances commodity market stabilization.

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