Editorial/*Editorial*

A new EU policy for fruit and vegetables

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In June 12, 2007, the Council reached a unanimous agreement on reforming the Common Market Organization (CMO) for fruit and vegetables (F&V). This reform, to enter into force in 2008, foresees a wide range of measures such as the progressive decoupling of the processing aids granted to certain F&V and their integration into the Single Payment Scheme; the complete phasing out of export subsidies for F&V; and higher EU funding of environmental measures; organic production and promotional measures. It is not the purpose of the present editorial note to carry out a deep assessment of the F&V reform but to pay attention to one of its most distinctive features: the continuing support to Producers' Organizations (POs).

The consensus around the F&V reform reflects a balance between two positions: on the one hand, the "*transfer*" option that meant the almost total dismantling of the EU contribution to POs and its subsequent transfer to the rural development programs, to the Single Payment Scheme (SPS) or to separate national envelopes; on the other hand, the so-called *PO+* option, which involves maintaining the support to the PO but making them more efficient and in line with the objective of the reform to build up a more competitive sector.

The assessment of the previous CMO with respect to POs reveals both positive and negative aspects. The share of total F&V production controlled by POs is close to 50%, which is an interesting level still below of that considered as desirable, taking into account the increasing concentration of retailers. Moreover, such share is not uniform across EU producing regions, being lower in main producers such as Spain and Italy. Operational funds and programs have been an appealing tool to promote supply concentration but producers' groupings have yet to prove their attractiveness. Operational programs have also promoted quality improvements and taken account of environmental concerns but such steps still need to be appreciated by consumers. Market withdrawals have dramatically decreased, which in theory is a good indicator towards stronger market orientation. However, the F&V is increasingly subjected to market disturbances and price crises. In the past, processing aids were helpful in providing the agro-food industry with European raw materials. However, for some products, the processing industry has become an outlet for surplus in the fresh market. These measures will be decoupled from production after a transition period. Full market exposure of the F&V in the EU will be a fact in few years.

Overall EU demand for F&V has kept stable during the last years though in recent years there has been a decrease in per capita consumption levels, with large variations between EU countries. Reasons behind this fall in F&V consumption include changes in life style towards convenience and perceived lost of taste among consumers. In fact, there is a trend towards overproduction. And growers are in a relatively weak position facing the increasingly concentrated retailing sector. More dominant buyers increasingly depend upon more and more committed suppliers. These are forced to accept low prices and to supply large volumes. Economies of scale appear as growers assume investment costs related to the implementation of standards and production practices. Consequently, retailers tend to favour large scale farming and not dealing with small growers and shippers. The lack of market

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transparency across the value chain limits the ability of farmers to successfully negotiate with retailers. In addition, the definition of tools for crisis management represents a challenge for POs and for all F&V stakeholders.

It is true that, against the considerable magnitude of the aforementioned market problems faced by F&V growers, we are afraid that the new CMO will not be sufficient to correct the most important weaknesses affecting the F&V market. However, there is little alternative to the policy orientated to support the POs. In this context, the POs are not just a simple way of adding value to the marketing of F&V. POs are becoming one of the few feasible strategies to keep many small farmers in business through their insertion in large scale organisations, which can be able to collaborate with retailers on a balance basis.

The new CMO facilitates the creation of POs by simplifying the legal framework to form POs according to the national particularities. Moreover, the POs will assume: new measures for crisis management; an increased rate of EU financing in the Member States and regions where grouping of supply is low; and a minimum allocation of the operational funds to environmental measures. Special emphasis will be put on encouraging consumption of F&V, especially by the younger generation. There will be extra support for mergers of POs and associations of POs.

Agricultural lobbies were successful in preventing the Council from adopting the "*transfer*" option that perhaps would have been more consistent with the mainstream economic policy addressing the growth and competitiveness objectives foreseen by the Lisbon strategy. But the cost of such choice would have been losing one of the only instruments that make it possible for EU' F&V growers to take part in the distribution of rents within the modern value chains. The local impacts of the "*transfer*" option on specialized areas in the Mediterranean and Central Europe would have been dramatic.

However, it is still early to declare success. A significant part of the reform's achievements will depend on the effectiveness of the POs in concentrating supply and on the right use of committed funds, which requires a closer monitoring and assessment of the operational programs. The reform CMO includes such reinforcement of monitoring within national strategies drawn up by Member States. Consequently, the programming period 2007-2013 represents a sort of last chance for the POs. A review of the CAP is planned for 2008 under the "*Health Check*" and we cannot rule out future adjustments in the CMO for F&V after 2013.

Explaining CAP reform's process is still a great academic challenge. The F&V reform was path-dependant on the CAP reformed in 2003, on the EU position in the –at the moment suspended- Doha Round, and on the stand-by in the process of European political integration, which involves severe budget constraints. The F&V reform will be implemented in a context accompanied by a substantial reduction of border protection, the phasing out of export subsidies, and a market oriented policy coupled with a clear willingness to simplify the CAP and to allow freedom for the cultivation of F&V in the whole EU territory. It is logic that some farm groups were not extremely happy with the reform. However, the new F&V policy appears to be a sensible policy as it is targeted to cope with the lack of organization of the sector in many EU regions.

It is as well a policy that does not enter in conflict with the trading interests of developing countries, as it seems consistent with an increased market access for third countries' products. This development will enhance competition but the problem for EU producers has to be faced by means of policies that upgrade domestic production, which means quality and organization. The new F&V policy is closer to what can be seen as an agricultural policy that is compatible with WTO obligations. EU farmers who wish to receive EU support will be forced to preserve the environment and the operational funds will likely be accepted as a "green box" policy. The EU might even encourage the creation of transnational POs where producers of the Southern and Northern shores of the Mediterranean basin can share commercial goals. In the current environment of lower public support within the EU, the new F&V policy can well be equipped with renewed legitimacy. Whatever the support granted by Brussels is, it seems to be time for the POs to show that they are responding to the high expectations created in the EU society.