

SPECIAL REPORT No 2/89

on

The organization of the markets in fresh and processed fruit and vegetables
Replies of the Commission

(89/C 128/02)

(Observations pursuant to Article 206a paragraph 4 of the EEC Treaty)

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1. INTRODUCTION

1.1. This report deals with the management and control of the Community regime of support for the fruit and vegetable market. This regime has a number of unusual features. When introduced in 1966 it was confined to fresh produce. Fruit and vegetables being perishable, the usual instruments of intervention purchase and storage are not appropriate for day-to-day market management. Accordingly the main forms of price support within the Community market are:

- (a) producers may withdraw their produce from the market and receive financial compensation from intervention agencies ⁽¹⁾. Produce withdrawn in this way can be disposed of in various ways, but in practice most of it is destroyed;
- (b) in order to enlarge the outlets for producers in the home market, and to help them compete with lower-priced imports, aid is available for the processing of certain fresh fruit and vegetables into more marketable products;
- (c) following the accession of Greece, support was extended to the processing of dried grapes and figs. Intervention purchase and storage was also provided for these products.

1.2. Although not covered in the present study, further support is provided by the imposition of duties on imports, supplemented, when necessary, by a system of import reference prices and countervailing charges. Export refunds are payable on produce (mostly fresh) exported to third countries, but expenditure thereon is limited. Moreover, to improve the marketing structure, fruit and vegetables marketed in the Community are subjected to a quality grading system.

1.3. This report ⁽²⁾ results from an examination of the measures mentioned in paragraph 1.1 i.e. financial compensation for the withdrawal of fresh produce from the market (budget item 1501) and of the subsidies for processing of produce (items 1503, 1511 and 1512), which

together account for some 90 % of total expenditure on the market, concentrated for the most part in Italy, and, to a lesser extent, Greece and France. Audit on-the-spot was confined to these three countries and the Netherlands. The audit in France was confined to processed products. The importance of the regime will increase considerably in 1992, when Spain and Portugal, which are both substantial producers of fruit and vegetables, will for the first time become significant beneficiaries. However given the present low expenditure there, they were not included in the present study.

1.4. The main issues dealt with were:

- (a) whether appropriate controls were foreseen and applied to ensure the legality and regularity of Community expenditure in relation to the withdrawal and processing of produce;
- (b) whether the operation of the various market measures at Community, national and local level ensure sound financial management.

1.5. The market in fruit and vegetables is characterized by surpluses of certain produce, accompanied by substantial withdrawals followed by destruction. The report shows that:

- (a) structural measures to redirect citrus production into more profitable lines have been ineffective;
- (b) the original regime replaced previous national schemes of support and relied heavily on national methods of administration and finance. The administrative provisions governing withdrawals of fresh produce — modelled on the more highly organized Dutch system — are ill-adapted to the marketing structures which exist in the Member States chiefly concerned;
- (c) there is no adequate incentive to seek useful outlets for produce withdrawn from the market;
- (d) only minimal control provisions are prescribed at Community level and producer organizations, some of which are not even properly constituted, have far too much discretion in committing EAGGF funds by the opening of withdrawals;

(1) Buying-in is in fact foreseen as a possibility, but in practice the Member States have opted for the withdrawal system instead.

(2) Previous work by the Court of Auditors includes a special report on measures affecting the management of the EAGGF Guarantee Section published on 6 October 1980 which contained an item on withdrawal measures for fruit and vegetables, OJ No C 258, 6. 10. 1980.

(e) physical controls on processing are inadequate and the risk of fraud and irregularity remains high.

rise of some 90 Mio ECU due to a surge in withdrawals of the product;

1.6. A more detailed summary of observations is contained in Chapter 7.

(c) a general decrease since 1985 in the amount spent on processed fruit.

2. PRODUCTION AND BUDGETARY EXPENDITURE

2.1. Production of those crops which are eligible for withdrawal under the Community's scheme has remained fairly stable during the marketing years 1982/83 to 1986/87 at a level of between 29,1 and 30,8 million tonnes while market withdrawals have varied between 1,2 million tonnes and 2,9 million tonnes. During the same period between 800 000 and 865 000 tonnes of fresh oranges and lemons were processed into juice annually, except for 1985/86 when both production and processing increased and 1 036 000 tonnes were processed. There were large variations in the production of other processed products the most notable of which being a large decrease from the 1985/86 marketing year in the quantity of processed tomatoes produced following the introduction of production quotas.

2.4. From the inception of the market organization, Italian producers were by far the principal beneficiaries. Even with the advent of Greece, Italy continued to be the biggest producer in the Community of 10, accounting for over 50 % of total Community production of fresh fruit and vegetables eligible for withdrawal and for over two-thirds of processed products receiving aid.

2.5. Further details of production and of Community expenditure on fruit and vegetables are contained in Annex I and in the tables attached thereto.

3. ADMINISTRATION OF THE WITHDRAWAL SYSTEM FOR FRESH FRUIT AND VEGETABLES

2.2. The amount spent on overall market support varies from year to year due principally to fluctuations in:

Basic regulations and the objectives

(a) the quantities harvested;

(b) the quantities withdrawn from the market at times of excess production;

(c) the quantities taken up by the processing industry.

3.1. The withdrawal system is laid down in Council Regulation (EEC) No 1035/72 of 18 May 1972 ⁽¹⁾ (the basic regulation), setting out the common organization of the market in fruit and vegetables. The objective of the market organisation is to achieve 'a balance between supply and demand at fair prices to the producer, account being taken of trade with third countries, while encouraging specialization within the Community' (sixth recital). The marketing year differs according to the type of fruit and vegetable involved.

2.3. Budgetary expenditure between 1982 and 1987 averaged 1 125 Mio ECU per annum. Although fairly stable in absolute terms, in relation to the total EAGGF Guarantee expenditure, it has declined from a peak of 7,9 % in 1984 to 4,2 % in 1987. Within this global amount there have been:

3.2. Fresh fruit and vegetables are perishable and those products most frequently in surplus, particularly so. Therefore storage for long periods is not practical. The financial compensation, i.e. the withdrawal prices paid to growers for the different products, is designed to prevent a drastic fall in market prices and is not meant to guarantee a fixed price over the marketing year, as is the case with the traditional intervention machinery of the common agricul-

(a) substantial fluctuations in the amounts spent on withdrawal of fresh produce;

(b) a decrease of 50 % (some 250 Mio ECU per annum) in the expenditure on processed tomatoes due to the imposition of quotas in 1985, offset in part by an initial

⁽¹⁾ Council Regulation (EEC) No 1035/72 of 18 May 1972 on the Common Organization of the Market in Fruit and Vegetables, OJ No L 118, 20. 5. 1972.

tural policy. Thus withdrawal prices are paid at levels well below the prices obtainable on the normal market.

Rules for granting financial compensation

Products eligible for aid

3.3. The intervention system applies only to a limited list of products:

apples	aubergines	mandarins	clementines
pears	apricots	table grapes	satsumas
peaches	oranges	cauliflowers	nectarines
tomatoes	lemons		

Clementines, satsumas and nectarines were added to the list under the terms of Council Regulation (EEC) No 223/88 ⁽¹⁾ of 25 January 1988. The former two were included because they form an important part of Spanish citrus fruit production and the latter because it is a substitute for peaches, a product which is already eligible for withdrawal.

Implementation of the system

3.4. The implementation of the system is delegated to nationally recognized producer organizations in the Member States. Regulation (EEC) No 1035/72 ⁽²⁾ specifies the goals of these organizations among which are the promotion of concentration of supply and price stability together with the provision of suitable technical means for the preparation and marketing of produce.

⁽¹⁾ Council Regulation (EEC) No 223/88 of 25 January 1988 amending Regulation (EEC) No 1035/72 on the Common Organization of the Market in Fruit and Vegetables, OJ No L 23, 28. 1. 1988.

⁽²⁾ Council Regulation (EEC) No 1035/72 of 18 May 1972 on the Common Organization of the Market in Fruit and Vegetables, OJ No L 118, 20. 5. 1972.

Setting the withdrawal price

3.5. The price below which produce will not be offered for sale on the market (i.e. the withdrawal price) is decided by the producer organizations concerned subject to ceilings laid down each year by the Council. This is the price which the organizations must then pay to their members for the produce so withdrawn and forms the basis for the financial compensation paid by the Community to the organizations. The prices (and the compensation) reflect differences in variety, quality class, size and packaging. The mechanism for setting the withdrawal price is described in more detail in Annex II.

Activating the system

3.6. The Community withdrawal system for fruit and vegetables is based on that operating in the Netherlands, a country with long and sophisticated marketing traditions. Dutch produce is sold at auctions and withdrawals take place when no offers are received for a lot at a price above the withdrawal price. In the southern Member States markets are more fragmented, the auction system is rare and producer organizations there have wide discretion to intervene in the market and withdraw produce.

The withdrawal procedure

3.7. The Community regulations do not lay down specific controls to be performed at the time of withdrawal. In Italy and Greece the operation is supervised by a three man control 'team' provided for under national regulations adopted in implementation of the Community measures. The teams comprise two local officials including an agronomist. In Italy, the third member is from the Guardia di Finanza, while in Greece, he is a representative of the producer organization concerned.

3.8. The task of the above control teams is to ensure that the produce presented for withdrawal is eligible for Community aid and is in a marketable condition — this means that it must be at least quality class II (the marketing of quality class III fruit is permitted only in exceptional circumstances). They also verify the variety, size and presentation of the produce, details which are necessary to determine the withdrawal price, and supervise destruction.

Disposal of withdrawn fruit

3.9. The basic regulation provides (Article 21) for the disposal of withdrawn fruit and vegetables by the following methods:

- (a) free distribution to charitable institutions, schools, prisons, hospitals etc. while ensuring that such distributions are in addition to normal purchases;
- (b) use for non food purposes;
- (c) use for animal feed either in a fresh state or after processing;
- (d) processing into alcohol of apples, pears and peaches;
- (e) the processing of certain varieties of orange.

3.10. Producer organizations in the Member States are responsible for disposals and the proceeds, if any, are deducted from the financial compensation paid by the intervention agency. A very high proportion of withdrawn produce finds none of the above outlets and is destroyed, usually by burial, despite the fact that such action is not explicitly foreseen by the regulations.

Observations related to the administration of the withdrawal system

3.11. The following observations underline the need for the Commission to set out clearly adequate controls to be performed by the national authorities.

Recognition and monitoring of producer organizations

3.12. Council Regulation (EEC) No 1035/72⁽¹⁾ requires that withdrawals from the market of fresh fruit and vegetables shall be conducted only by producer organizations which are recognized by the Member State in

question. Article 13 of the same regulation specifies a number of conditions which these associations must satisfy in order to qualify for recognition. Among these is a requirement that the entire produce of the members should be marketed through the central organization. However, producers may be authorized by the association not to apply this requirement for certain quantities. It was intended therefore that in order to obtain recognition and to benefit from the Community aid, producer organizations should be genuine marketing bodies.

3.13. The audit team visited producer organizations in Italy, Greece and the Netherlands. In Sicily all four of the selected producer organizations were found not to be genuine marketing entities. It was ascertained that the majority of the sales which actually took place were arranged by the individual members and not marketed through the central organization as required by the regulation. As a consequence, the main activities of the organizations consisted simply in attending to withdrawal operations. In one case income from withdrawals accounted for 90 % of the total income of the producer organization.

3.14. The above points call into question the effectiveness of the verifications carried out prior to the granting of recognition to these organisations and of their subsequent supervision. It is recommended that the Commission should critically review the procedures employed in the Member States and should provide for a re-examination of existing producer organizations to ensure that the Community regulations are respected and that the organizations are entitled to benefit from the aid system.

3.15. The Court is aware of the Commission's attempts to correct such breaches of the regulations in the past by conducting lengthy enquiries into the operations of producer organizations in France and Italy. For this reason it is all the more disappointing to note that the problem continues to exist.

3.16. Since the Court's enquiries began, the Commission's own auditors visited Sicily early in 1988, in connection with the clearance of accounts procedure for 1986. Based on an analysis of the operation of four producer organizations, different from those visited by the Court, the Commission has disallowed 54,2 billion Lire (35,6 Mio ECU) in respect of three of them.

Supervision of destruction operations

3.17. In view of the possibility that withdrawn produce sent for destruction might find its way back into the normal

⁽¹⁾ Council Regulation (EEC) No 1035/72 of 18 May 1972 on the Common Organization of the Market in Fruit and Vegetables, OJ No L 118, 20. 5. 1972.

market it is essential that effective controls should exist at that point. As mentioned in paragraph 3.10, destruction is not specifically foreseen by the regulations and this fact alone may lead to controls in this area being less than adequate. In the Netherlands the authorities have interpreted the regulations literally and have taken the view that destruction is not allowed. However, considerable quantities of withdrawn fruit and vegetables which do not find any useful outlet in that country are allowed to rot by the producer organizations in an area of their premises designated for that purpose. This procedure is not the subject of any independent verification. Furthermore the authorities in the Netherlands, when reporting to the Commission on the destination of withdrawn produce, declare all such quantities as used for animal feed, although, in the case of tomatoes, a substantial portion is destroyed. The Dutch authorities explained their actions by stating that all varieties of fruit and vegetables withdrawn from the market are intended for use as animal feed and this possibility continues to exist even where, due to insufficient demand, the produce has been sent to the dump.

3.18. In Italy and Greece, on the other hand, destruction of withdrawn produce is accepted by the national authorities and is monitored by control teams described in paragraphs 3.7 and 3.8. However the operation is described in aid applications as 'use for non-food purposes', and is so certified by the local verifying officers. The Court considers that this description is, at best, ambiguous and should be changed to specify the precise nature of the use e.g., 'destruction under supervision'. Furthermore the destruction operations should be the subject of a report by the verification team to the paying agency, a practice which was not followed in any of the regions (with the exception of one in Italy) visited by the Court's auditors.

3.19. The foregoing paragraphs highlight the unsatisfactory situation stemming from the absence of Community provisions relating to destruction. If destruction, whether active or passive, were recognized as a permissible destination Member States such as the Netherlands would be forced to adopt proper controls, and reporting systems used by all Member States would be based on reality.

Cash proceeds from sale of withdrawn produce

3.20. The proceeds of sales of withdrawn produce are to be declared each month to the intervention agency and subsequently deducted from the financial compensation payable in respect of withdrawn produce. There was no evidence that the above financial proceeds, which in the 3

marketing years 1984/85 to 1986/87 ranged between 1,2 and 3,2 Mio ECU per annum, are checked for accuracy or completeness by any control body. This matter should be examined as a matter of urgency by the Commission.

Timing of financial compensation

3.21. Article 18 of the basic regulation provides that the value of the financial compensation to be paid by the Community to producer organizations in respect of withdrawn produce shall, in the normal case, be equal to the indemnities paid by the organizations to their members, less any net receipts from disposals. Under Article 15, the organizations are to set up intervention funds, fed from contributions levied on their members, in order to provide the necessary resources.

3.22. In Italy and Greece, these provisions, which clearly imply that the organizations must have paid the indemnities before claiming the financial compensation, are ignored. In Italy, the indemnities are paid out of the proceeds of the financial compensation after it is received from the intervention agency, and this despite the fact that the claims for such compensation are certified to the effect that the indemnities have been 'paid'. In Greece, although it is understood that the organizations pay an advance on account of the indemnities, the application for aid makes clear that the indemnities have not yet been fully paid. In both Member States the authorities are aware of this irregular situation but tolerate it because of the financial burden which would be involved for the producer organizations in pre-financing the indemnities which for the marketing year 1986/87 amounted to some 448 Mio ECU⁽¹⁾ for the two Member States in question. The Commission services have also closed an eye to the problem. It is unacceptable that Community regulations should be manipulated in this way. The Commission has a duty, in clearing the Member States' accounts, to allow as a charge on Community funds only expenditure which conforms to Community provisions. If there are practical difficulties in implementing legislation, steps should be taken to change it.

Supporting documentation

3.23. To provide for the possibility of audit, it is essential that the basic documents relating to deliveries of fruit to intervention centres — detailed listings, weighbridge

⁽¹⁾ Commission Doc. PFLF-201/5, Annex I/b: Italy 340,8 and Greece 106,7 Mio ECU.

tickets, etc. — be retained. Here again, the audit team found that in none of the regions visited, with the exception of one in Italy, were these documents retained.

4. THE ADMINISTRATION OF THE AID SYSTEM FOR PROCESSED FRUIT

Processing systems

4.1. Processing aid (known in the regulations as financial compensation or production aid, depending on the measure) is paid to processors under the following budget items:

1503 — Compensation to encourage the processing of citrus fruits, viz: lemons and certain varieties of oranges;

1511 — Production aid for tomato-based products;

1512 — Production aid for fruit-based products, viz:

peaches	} in syrup
Williams pears	
cherries	

prunes	} dried goods
sultanas	
currants	
figs	

4.2. Expenditure under 1503 is made under two regulations, for oranges under Council Regulation (EEC) No 2601/69 of 18 December 1969 ⁽¹⁾ and for lemons under Council Regulation (EEC) No 1035/77 of 17 May 1977 ⁽²⁾. In concept the expenditure on the processing of oranges is an extension of the support measures aimed at giving assistance to the fresh market. The measures granting aid were introduced when the markets were in a critical situation; when there were heavy withdrawals of certain varieties of oranges and when Community lemon juice

came under pressure from imports. Since then the system has arrived at a stage where those varieties of oranges admitted for processing aid have only the production of juice as a market outlet, fresh sales being negligible.

4.3. Expenditure under both 1511 and 1512 is made under Council Regulation (EEC) No 426/86 of 24 February 1986 ⁽³⁾. The production aid granted for the processing of tomatoes and fruit is intended to facilitate competition with third country imports by compensating for the difference between Community and world market prices. A condition for receiving the aid is that factories must pay a Community set minimum price which assures growers' incomes.

Fruit in syrup

General

4.4. Regulation (EEC) No 426/86 ⁽³⁾ and the implementing regulation [Commission Regulation (EEC) No 1599/84 of 5 June 1984] ⁽⁴⁾, set out the rules under which aid may be granted. Processors must have contracted for and purchased raw product at or above the relevant minimum price set each year by the Commission. The raw material must be of sound and fair merchantable quality and suitable for processing and the resultant processed product must meet minimum Community quality requirements.

4.5. *Table 1* shows the number of irregularities in the processed fruit sector reported by Member States for the period 1983 to 1987. The information shown may not be exhaustive as it will not include irregularities which have been detected by Member States but which have not been reported to the Commission, a matter which the Court has

⁽¹⁾ Council Regulation (EEC) No 2601/69 of 18 December 1969 laying down special measures to encourage the processing of certain varieties of oranges, OJ No L 324, 27. 12. 1969.

⁽²⁾ Council Regulation (EEC) No 1035/77 of 17 May 1977 laying down special measures to encourage the marketing of products processed from lemons, OJ No L 125, 19. 5. 1977.

⁽³⁾ Council Regulation (EEC) No 426/86 of 24 February 1986 on the common organization of the market in products processed from fruit and vegetables, OJ No L 49, 27. 2. 1986.

⁽⁴⁾ Commission Regulation (EEC) No 1599/84 of 5 June 1984 laying down detailed rules for the application of the system of production aid for products processed from fruit and vegetables, OJ No L 152, 8. 6. 1984.

Table 1: Irregularities reported by Member States, 1983 to 1987 (by type)

Member State	Type								Total	
	1501 withdrawals		1503 citrus processing		1511 tomato processing		1512 fruit processing			
	cases	amount (1 000 ECU)	cases	amount (1 000 ECU)	cases	amount (1 000 ECU)	cases	amount (1 000 ECU)	cases	amount (1 000 ECU)
FR of Germany	4	111,4 (29,4) ⁽¹⁾	—	—	—	—	—	—	4	111,4 (29,4)
France	7	103,8 (28,2)	—	—	3	84,1 (31,2)	1	2,6 (0,0)	11	190,5 (59,4)
Italy	8	997,3 (0,0)	50	6 575,8 (10,3)	35	73 594,2 (269,1)	10	3 675,9 (0,0)	103	84 843,2 (279,4)
Total	19	1 212,5 (57,6)	50	6 575,8 (10,3)	38	73 678,3 (300,3)	11	3 678,5 (0,0)	118	85 145,1 (368,2)

⁽¹⁾ Amounts shown in brackets are the amount recovered.

criticized in the past ⁽¹⁾. During the audit on the spot in Italy, officials emphasized the continuing fight against fraud and stated that in the first four months of 1987 irregularities involving an estimated 40 000 Mio Lire (26,3 Mio ECU) had been detected in the processed fruit and vegetable sector. The irregularities mainly concerned the processing of tomatoes and peaches and were detected as a result of extended enquiries covering payments over a number of years. The Court's audit identified a number of improvements, mentioned in the following paragraphs, which should be made to the control systems of certain Member States.

Control visits

Notification in advance

4.6. In Italy most control visits by the national authorities are notified in advance, while this was not generally the case in Greece and France. Spot checks on the quantity and quality of raw material input and product output are, in the Court's view key elements of the control system and it is recommended that where possible such visits be made unannounced. The Italian authorities have advised the

Court that they will discontinue the practice of giving notice of visits.

Checks on input and output

4.7. In the Member States control visits are generally made at the beginning and end of the processing season, to establish starting and ending stock levels, and twice further during the processing period. The controls concentrate on production records with test checks against stocks. The Court found the number of visits and consequent physical checks on raw materials and finished products inadequate. Where such physical checks were performed, their effectiveness was sometimes open to question. For example, in Italy it was found that officials usually took the stated contents of cartons at face value. Furthermore they did not examine primary records relating to production, storage and dispatch as a matter of routine.

4.8. Although aid is paid in respect of finished processed product the Court considers that the authorities in the Member States should seek to verify, by systematic physical checks, the quantity and quality of raw product received and processed. This information should then be used to establish that the declared output is feasible.

⁽¹⁾ Court's Annual Report for the financial year 1986, paragraph 6.10 (OJ No C 336, 15. 12. 1987).

4.9. The importance of frequent physical checks combined with checks on primary documents is underlined by the fact that the majority of frauds identified in this market sector concern fictitious production. The Court considers that the Commission should provide for systematic checks on raw and finished product. Member States should lay down for each claimant a programme of frequent spot checks with records being kept of the product examined and of the documents verified. While the Court believes that this is a general control problem it notes that the Corte dei Conti has examined the Italian control system and has reached the broadly similar conclusion ⁽¹⁾ that in that Member State the system should be simplified so as to give special priority to permanent and physical on-the-spot checks at the time of processing and to concentrate checks on accuracy at this stage.

4.10. Processors regularly test the canned finished product to ensure that quality standards are met. Due to the scale of the commercial operation and the low frequency of control visits Member States require the undertakings to set aside representative cartons from daily production. During control visits the inspectors select samples from this 'stock' and send them for analysis. The Court considers that such a sampling system does not guard sufficiently against irregularities as it is the undertaking itself which selects the production which may be subjected to further official tests. In addition, in Italy the responsible officials do not as a matter of routine make enquiries within the undertaking if official test results differ from those obtained by the processor. The Commission should ensure that the sampling and analyses carried out by the undertakings themselves be tested by means of a minimum scale of official sampling with samples being taken both from the production line and from stock, and that any discrepancies between official test results and those carried out by the undertakings be followed up.

4.11. The Italian authorities have introduced ⁽²⁾ credibility checks between input raw material and output processed product. Maximum allowable percentages of output for raw material input have been set nationally e.g. that for peaches in syrup is 70 %. Any claim exceeding the limit is reduced to the maximum permissible. However, the check needs to be strengthened so that where there are indications of overdeclaration of output follow-up action is taken. At present this does not occur. In addition there has been no review to examine whether the limits laid down

reflect realistic input/output ratios; enquiries made at modern plants indicated that the maxima are in fact overgenerous.

Processed tomatoes

4.12. The main tomato products in receipt of aid are canned tomatoes and tomato concentrate. In 1984 following reports from the Italian authorities of a substantial and unexplained increase in processing, the Commission launched an enquiry in that country under Article 9 of Council Regulation (EEC) No 729/70 of 21 April 1970 ⁽³⁾. Its purpose was to ascertain the true state of the market in processed tomatoes and the reasons for the rapid expansion of processing. Commission officials accompanied by national representatives and industrial experts visited a number of undertakings in three regions of Italy in October 1984.

4.13. No irregularities or frauds were identified and it was ascertained that the production, indicated by the plants visited, was feasible. The explanation given to the Commission officials for the increase in the quantities processed was that it resulted from an increase in the area of tomatoes cultivated and a switch to tomato processing from products not eligible for processing aid.

4.14. The Commission followed up the initial enquiry by requesting the Italian authorities to carry out enquiries at certain undertakings under the terms of Article 6 of Council Regulation (EEC) No 283/72 of 7 February 1972 ⁽⁴⁾. Despite reminders from the Commission services, it was not until late 1988 that the Italian authorities gave some information on progress. The Court considers the delays to be most regrettable and urges the Commission to take appropriate steps.

4.15. In view of the Commission's enquiry and that of the Italian authorities the Court's audit effort was concentrated on other processed products. However, many processors of fruit in syrup are also processors of tomatoes

⁽¹⁾ Report of the Corte dei Conti on the results of the audit of financial management for the financial year 1986 of AIMA (page 103).

⁽²⁾ Article 25 of Italian Ministerial Decree dated 4 September 1985.

⁽³⁾ Council Regulation (EEC) No 729/70 of 21 April 1970 on the financing of the common agricultural policy, OJ No L 94, 28. 4. 1970.

⁽⁴⁾ Council Regulation (EEC) No 283/72 of 7 February 1972 concerning irregularities and the recovery of sums wrongly paid in connection with the financing of the common agricultural policy and the organization of an information system in this field, OJ No L 36, 10. 2. 1972.

at other times of the year. It is considered that the observations relating to fruit in syrup contained in paragraphs 4.6 — 4.11 are also relevant to the control of tomato processing.

Dried grapes

General

4.16. The aid system for dried grapes which is operated in Greece only, follows that outlined at paragraph 4.4. It consists of an aid for the processing of sultanas and currants which have been dried on producers' premises and sold to processors at or above the minimum price. This price is the subject of monthly increments. In order to qualify for aid, producers of currants are required by Article 1 of Council Regulation (EEC) No 1277/84 of 8 May 1984 ⁽¹⁾ to withhold 5 % of their production from delivery to the processing industry which in turn is required to withhold from processing and sale 8 % of sultanas and 15 % of currants bought under contract. Such quantities not processed are not eligible for aid. This requirement is in order to maintain the quality of the processed product.

4.17. If the producer has not sold his produce to a processor, he may sell it during the last two months of the marketing year to storage agencies under the terms of Commission Regulation (EEC) No 626/85 of 12 March 1985 ⁽²⁾. The price paid by the storage agency is the minimum price before the application of the monthly increments. The storage agencies, which are privately-owned, often by producer cooperatives or associations, receive aid at a flat-rate to cover storage costs and also financial compensation to cover losses on eventual sale ⁽³⁾. The audit of the processing system did not lead to any major observation. However, the Court has a number of remarks in relation to the storage system.

⁽¹⁾ Council Regulation (EEC) No 1277/84 of 8 May 1984 laying down general rules for the system of production aid for processed fruit and vegetables, OJ No L 123, 9. 5. 1984.

⁽²⁾ Commission Regulation (EEC) No 626/85 of 12 March 1985 on the purchasing, selling and storage of unprocessed dried grapes and figs by storage agencies, OJ No L 72, 13. 3. 1985.

⁽³⁾ Commission Regulation (EEC) No 627/85 of 12 March 1985 on storage aid and financial compensation for unprocessed dried grapes and figs, OJ No L 72, 13. 3. 1985.

Approval and monitoring of storage agencies

4.18. Regulation (EEC) No 626/85 ⁽⁴⁾ lays responsibility for approval of storage agencies on the Member States, but the conditions for approval are not specified in detail. This failure to lay down the conditions which should be met is regrettable because most storage agencies are also producer associations so that when goods are sold by producers to a storage agency no 'arms-length' sale occurs. Similarly it is frequently the producer association, owner of the storage agency, that is the purchaser. In practice, therefore, the safeguard of opposed interests which should ideally exist between storekeeper, seller and buyer is non-existent.

4.19. The main risks are:

- (a) that the quality of the product accepted into storage may be overstated and even sub-standard;
- (b) substitution of the product with a similar product of lower quality at some stage during storage;
- (c) manipulative discrepancies between ingoing and outgoing quantities and qualities. At the limit the stocks might be purely fictitious;
- (d) storage agencies may take decisions having adverse financial consequences for the EAGGF.

4.20. In the case of (b) and (c) the objective of removing produce temporarily from the market is frustrated. In all cases the EAGGF may be financing unjustified transactions. Examples of how this lack of opposed interests can work to the overall detriment of the scheme were identified during the audit and are set out below.

4.21. At none of the three storage agencies visited in Greece was there any evidence that the products had been weighed when handed over to the storage agency, as required by the regulations. The weight recorded in the accounts was that established earlier in the marketing year when the product was stored privately, without adjustment for any losses occurring before public storage. Such weight losses do occur, particularly in respect of sultanas which are usually stored in hessian sacks; these do not protect

⁽⁴⁾ Commission Regulation (EEC) No 626/85 of 12 March 1985 on the purchasing, selling and storage of unprocessed dried grapes and figs by storage agencies, OJ No L 72, 13. 3. 1985.

them fully with the result (apart from the fact that it is contrary to the regulations) that total weight losses of up to 30 % can occur from the time when the sultanas were first privately stored. Thus the weights recorded at the time of handing over to the storage agency are not valid. Failure to correctly record the weight of product taken over by a storage agency will lead to incorrect claims for storage aid and to the recording of larger losses on eventual sale than in fact should be the case. An accounting system which accepts fictitious figures should not be tolerated.

4.22. Losses in store, over a prescribed limit of 1 %, are at the charge of the storage agency. Nevertheless, storage agencies are required by the regulation ⁽¹⁾ to carry out a first physical stocktaking at the end of February and subsequent stocktakings at the end of August each year, which Member States are required to verify. The stock records kept by each of the three storage agencies examined showed that no storage losses were recorded, nor were corrections made by the verifying authority. As it was acknowledged that losses do occur both the accuracy of the records and the checks made are questionable.

4.23. A producer association, which is also a processor, rejected offers from a competing processor to purchase 200 tonnes of currants at the minimum price. This led to a greater quantity of currants being handed over by the association to its own storage agency than would otherwise have been the case, resulting in a net cost to the Community budget of 13,7 ECU/100 kg, i.e. in the above case alone, 27 400 ECU. The same association in its capacity as storage agency later rejected an offer from the same competitor to purchase 1 000 tonnes of currants for human consumption because the purchase price fixed by regulation was not shown on the purchase application, a matter that could under normal circumstances have been resolved by telephone or telex. The storage agency subsequently sold the product to its own producer association for processing itself.

4.24. If the combination of storekeeper, seller and buyer retained by the storage agencies is to be continued to be tolerated, the Commission should lay down strict criteria for the approval and monitoring of storage agencies. In particular it should require Member States to implement a systematic practice of formal checks at entry and release of

stocks with regular reports on storage conditions, including effective stocktaking and reconciliation of stock records.

Sales for animal feed

4.25. Sales from storage may take place either at prices fixed in advance by the Commission, or by tender. Under Article 1(2) of Commission Regulation (EEC) No 3205/85 of 15 November 1985 ⁽²⁾ products sold by tender for animal feed are required to be '... denatured in such a way that they cannot be used subsequently for human consumption or incorporated into products for human consumption including alcohol.'

4.26. Currants sold for animal feed are purchased mainly by individual farmers for feeding to their stock. During the audit the competent national authorities received reports that currants denatured for animal feed had been later sold as fit for human consumption. At the time of the audit routine checks were not made by the national authorities at the purchasers premises to ensure that the currants were used for the intended purpose, or to ensure that the denaturing was effective. The Greek authorities have informed the Court that they are in the process of strengthening their controls. The Court considers that the Commission should lay down the denaturing methods and subsequent checks to be undertaken by Member States.

Citrus fruit

4.27. Under Articles 18 and 19 of Commission Regulation (EEC) No 1562/85 of 7 June 1985 ⁽³⁾ aid is paid in respect of the quantity of raw fruit supplied by a producer under a processing contract and actually processed. The controls introduced by the Italian authorities to ensure compliance with the requirements of the scheme are broadly satisfactory. Three officials are required by the national rules to be present for the control of the receipt

⁽¹⁾ Commission Regulation (EEC) No 626/85 of 12 March 1985 on the purchasing, selling and storage of unprocessed dried grapes and figs by storage agencies, OJ No L 72, 13. 3. 1985.

⁽²⁾ Commission Regulation (EEC) No 3205/85 of 15 November 1985 on the sale by way of invitation to tender of unprocessed dried grapes for specific uses, OJ No L 303, 16. 11. 1985.

⁽³⁾ Commission Regulation (EEC) No 1562/85 of 7 June 1985 laying down detailed rules for the application of measures to encourage the processing of oranges and the marketing of products processed from lemons, OJ No L 152, 11. 6. 1985.

and processing, an agronomist, an official of the regional Ministry of Agriculture and a member of the Guardia di Finanza.

4.28. The elaborate nature of this control system which was introduced to combat the risk of fraud or irregularity, has had a restrictive effect on processing. Undertakings may only receive and process fruit when all members of the official control team are present, thus the plant is required to lie idle outside normal official working hours and transport may wait up to a day to discharge. Limiting the hours of operation inevitably increases the cost of processing and, indirectly, serves to maintain a higher level of aid than would otherwise be necessary. In addition, the limit on processing also serves to divert fruit to withdrawal. The Court considers that while the current strength of controls should not be decreased, steps should be taken by the Italian control authorities to relieve this situation.

5. MARKET MANAGEMENT — FRESH FRUIT WITHDRAWALS

Control of the basis for commencement of withdrawals

5.1. It was mentioned in paragraph 3.6 that the producer organizations which operate in the southern Member States rarely use auction systems. This means that, in cases where auctions do not take place, withdrawals might occur if it were considered that the resultant shortage would

create higher prices later on. In these instances producer organizations would be willing to accept the lower withdrawal price for a portion of their produce in the knowledge that higher market prices would be available later. The Court considers that private trade organizations should not be allowed access to Community funds without adequate supervision of their actions and urges that the regulations be amended so as to place the onus on producer organizations to justify the necessity for each withdrawal operation.

End-use of withdrawn produce

5.2. Table 2 shows the usage of withdrawn produce for the 1984/85, 1985/86 and 1986/87 marketing years. The quantity going for free distribution has remained stable during the period despite the fact that total withdrawals have increased substantially. At only 1,3 % of the total quantity withdrawn in 1986/87 it is largely insignificant. Quantities used for animal feed have also shown no great variation over the period. Quantities used for distillation were exceptionally high in 1984/85 at 344 000 tonnes due to heavy withdrawals of apples and peaches during that year.

5.3. The quantities going for destruction were very high during 1985/86 and 1986/87 marketing years at 83,0 % and 83,4 % of total withdrawals. By contrast the level of destruction in 1984/85 was relatively low at 46,6 %. This can be explained by the insignificant citrus fruit withdrawals that year (the bulk of which find no useful outlet) and the relatively high level of apple and peach withdrawals which are suitable for animal feed and distillation.

Table 2: End use of withdrawn fruit and vegetables

(tonnes)

Usage	Marketing year					
	1984/85		1985/86		1986/87	
Free distribution for charitable purposes	35 364	(2,9 %)	36 085	(1,6 %)	37 960	(1,3 %)
Animal feed	275 971	(22,5 %)	189 588	(8,7 %)	290 916	(10,0 %)
Distillation	343 783	(28,0 %)	146 353	(6,7 %)	154 545	(5,3 %)
Destruction	571 873	(46,6 %)	1 819 121	(83,0 %)	2 419 188	(83,4 %)
Total withdrawals	1 226 991	(100 %)	2 191 147	(100 %)	2 902 609	(100 %)

Charity

5.4. Free distribution to charities, schools, hospitals, etc. is permitted under the regulations. In Italy such distribution is coordinated locally by the Prefettura, the regional representative of central government. Despite this only 1,4 % of Italian withdrawals were released in this manner during the 1986/87 marketing year. In Greece, where no government authority is involved, less than 1 % of produce goes to charity. Among the reasons quoted for these low rates of free distribution are transport costs (despite a Community subsidy towards such costs), perishability of produce and fear of disturbing an already fragile market. The measures taken by the Council in the context of the free distribution of certain foodstuffs following the harsh winter of 1986 met with no greater success as far as fruit and vegetables were concerned.

Distillation

5.5. The regulations permit the distillation into alcohol of apples, pears and peaches which have been withdrawn from the market. This possibility is applied principally in Italy but also in France and the FR of Germany. In Italy the Court's audit team were informed that the resultant alcohol is becoming increasingly difficult to market and in almost all cases it is purchased and stored by the authorities at national expense. In view of the already difficult situation in the alcohol market in general as described in the Court's Special Report on Community Wine Distillation Measures ⁽¹⁾, large scale distillation would not appear to be a clearly superior alternative to destruction.

Processing

5.6. Commission Regulation (EEC) No 2448/77 of 8 November 1977 ⁽²⁾ subsequently amended by Commission Regulation (EEC) No 713/87 of 12 March 1987 ⁽³⁾ permits the supply of certain varieties of oranges withdrawn from

the market to the processing industry. Despite the fact that substantial withdrawals of the varieties in question have taken place in Italy, no supplies have been made to the processing industry from this source since the marketing year 1978/79. The Commission is urged to consider how this potentially useful outlet may be exploited.

Destruction

5.7. In a market involving highly perishable goods such as fruit and vegetables, some destruction is inevitable. However, in recent years wastage such as this has continued to grow resulting in repeated criticisms by the European Parliament and by the public in general. While equally concerned about this adverse trend, the Court's main preoccupation has been the weaknesses of the control system and their financial consequences. These matters are discussed in paragraphs 3.17 — 3.19.

5.8. On a more general level, producer organizations have no incentive under present arrangements, to seek alternative uses for withdrawn produce. The Commission should examine the feasibility of some system which would dissuade a too-ready recourse to destruction. One possibility might be to reduce the financial compensation for produce which is subsequently destroyed. This would encourage producer organizations to make greater use of the other permitted outlets and also help to avoid unnecessary withdrawals. It would also serve to reduce the cost to the Community of the withdrawals system.

Priority between withdrawals and processing

5.9. Some fruit and vegetables which are eligible for withdrawal also qualify for Community processing aid. Examples are 'long' tomatoes, Williams pears, peaches, lemons and certain orange varieties. Producers of the above can choose either to dispose of their fruit to processing undertakings by means of pre-harvest contracts or they can sell it on the fresh market. In the latter event produce may be submitted for withdrawal. Fresh market prices are normally higher than processing prices but sales to the processing industry contain a number of advantages for producers — output may be disposed of through pre-harvest contracts, quality, packing and presentation requirements are less stringent and transport costs are borne by the factories. If the produce is submitted for

⁽¹⁾ Special Report No 4/87 on Community Wine Distillation Measures, OJ No C 297, 6. 11. 1987.

⁽²⁾ Commission Regulation (EEC) No 2448/77 of 8 November 1977 laying down conditions for the disposal of oranges withdrawn from the market to the processing industry and amending Regulation (EEC) No 1687/76, OJ No L 285, 9. 11. 1977.

⁽³⁾ Commission Regulation (EEC) No 713/87 of 12 March 1987 amending Regulation (EEC) No 2448/77 in respect of conditions for the disposal of oranges withdrawn from the market to the processing industry, OJ No L 70, 13. 3. 1987.

withdrawal the price obtained will normally be lower than either of the above alternatives.

5.10. Italy is the only citrus fruit producer Member State which also has a significant processing industry. The price obtained by producers depends upon the quality of the fruit and the market outlet (i.e. fresh market or processing industry). The fresh market normally demands the highest quality fruit i.e. 'extra' or class I while the processing industry normally uses the lowest quality i.e. class III (the regulations actually prohibit the marketing of class III fruit on the fresh market). The remaining class i.e. class II, normally goes for withdrawal and subsequent destruction. The regime therefore produces the paradoxical result that fruit of a higher quality can be withdrawn and destroyed while poorer quality produce is reserved for processing.

5.11. *Table 3* contains a comparison of withdrawal prices and minimum prices for selected products for the marketing years 1986/87 and 1987/88. In the case of tomatoes and peaches the price gap in favour of processing is sufficiently wide to ensure that factories receive all the supplies they need and withdrawals are discouraged. In the case of citrus fruit however the situation is less clear. For the Moro and Torocco orange varieties the withdrawal price was more favourable than the processing price. In the case of lemons this was also true for the 1986/87 marketing year, but a large cut in the withdrawal price for 1987/88 has reversed the situation.

5.12. The Court considers that the withdrawal of fruit and vegetables from the market should be a last resort measure and that the withdrawal price should never be more attractive than the raw material price of factories. Accordingly further cuts in withdrawal prices are advocated until in all cases they are below the processing prices. In addition the Commission should review the quality problem with a view to ensuring that factories can compete for good quality fruit and destruction should be confined to produce of the lowest quality.

Exclusion of mandarins from processing aid

5.13. Major structural problems exist within the market for mandarins and lack of demand for the product in recent

years has pushed withdrawal rates to levels of 80 % in the 1985/86 marketing year and 59 % in 1986/87. One way of alleviating this serious situation would be to introduce a processing aid as was done in the past for the problematic orange variety 'Biondo Commune'. The Commission has not proposed a change however because it wants to see the product replaced by varieties more in demand rather than further subsidised and because it fears future repercussions on the remainder of the small citrus fruit market (satsumas and clementines which come principally from Spain).

5.14. In view of the slow progress on the reconversion programme (see paragraphs 5.15 — 5.17), continued support will be necessary and it is the Court's view that the aid is better channelled towards useful production rather than towards the continuous destruction of the product. Visits on-the-spot in Italy have indicated that the industry has the spare capacity to process mandarins and wishes to process the fruit if it could be obtained at sufficiently attractive prices. Costings provided to the Court's auditors by the Italian citrus processing industry indicate that payment of an aid, sufficiently attractive to encourage the processing of mandarins into juice, could produce a net budgetary saving while avoiding destruction. In the Court's opinion the merits of introducing a processing aid for mandarins, at least pending reconversion of this variety, and until the full implementation of intervention thresholds in 1992 (see Annex II), should be considered by the Commission.

Reconversion plan

5.15. A long-standing problem in the fruit and vegetable market has been the continued production of varieties which are not adapted to consumer preferences. For example problematic varieties such as the mandarin, the 'Elberta' peach and the 'Starking' apple are still being produced year after year despite the fact that withdrawals remain consistently high.

5.16. Reconversion of citrus plantations is financed, in part, by the Guidance Section of the EAGGF⁽¹⁾, but progress has been slow. In Sicily for example reconversion

⁽¹⁾ Council Regulation (EEC) No 2511/69 of 9 December 1969, laying down special measures for improving the production and marketing of Community citrus fruit, OJ No L 318, 18. 12. 1969.

Table 3: Comparison of withdrawal prices and minimum processing prices for certain fruits and vegetables

Fruit	Marketing year		Variation %
	1986/87 (ECU/100 kg)	1987/88 (ECU/100 kg)	
Oranges (Moro/Tarocco):			
Withdrawal price ⁽¹⁾	20,83	16,03	- 23,0
Minimum price	17,53	14,86	- 15,2
Price difference in favour of withdrawal	3,30	1,17	
Lemons:			
Withdrawal price ⁽¹⁾	22,92	16,76	- 26,9
Minimum price	20,03	19,53	- 2,5
Price difference in favour of processing	—	2,77	
Price difference in favour of withdrawal	2,89	—	
Tomatoes (Roma variety):			
Withdrawal price ⁽²⁾	8,85	7,50	- 15,3
Minimum price ⁽³⁾	11,76	11,35	- 3,5
Price difference in favour of processing	2,91	3,85	
Peaches (Vesuvio variety):			
Withdrawal price ⁽⁴⁾	17,46	17,30	- 0,9
Minimum price	31,28	28,78	- 8,0
Price difference in favour of processing	13,82	11,48	

⁽¹⁾ Based on class II fruit delivered to withdrawal centre in January in an unpacked condition.

⁽²⁾ Based on class II tomatoes delivered to withdrawal centre in September in a packed condition.

⁽³⁾ Minimum price for tomatoes intended for manufacture of preserved or frozen whole peeled tomatoes of the Roma variety.

⁽⁴⁾ Based on class II peaches of the 'Vesuvio' variety delivered to the withdrawal centre in July in a packed condition.

approved to date amounts to 3 766 ha out of a total Sicilian area under citrus fruit of 110 000 ha. The most problematic of the citrus fruits i.e. the mandarin, has been given a low priority in the plan by the national authorities. Indeed any switching which has taken place involving mandarins has merely involved replacing the 'Havana' variety with a later variety called 'Tardivo'. Progress recorded in other areas of the Community was also slow.

5.17. The Court deplores the lack of progress under the reconversion plan almost twenty years after it was first proposed. It reiterates the remarks contained in paragraphs 8.3 and 8.8 of its Annual Report concerning the financial year 1986 ⁽¹⁾ and recommends that the Commission should conduct an examination of the problem including a qualitative assessment of the type of reconversion which is taking place.

⁽¹⁾ OJ No C 336, 15. 12. 1987.

Quality control

5.18. Following repeated problems in the area of quality control the Council ⁽²⁾ authorized the Commission in May 1985 to set up a special inspection unit to carry out inspections in the Member States in conjunction with the national authorities. In view of the particular importance of ensuring compliance with the quality norms laid down for the respective rates of Community aid, the Court regrets that the Commission has been unable, until 1988, to find the resources necessary for this task.

⁽²⁾ Council Regulation (EEC) No 1319/85 of 23 May 1985 on the reinforcement of supervision of the application of Community rules on fruit and vegetables, OJ No L 137, 27. 5. 1985.

6. MARKET MANAGEMENT — PROCESSED FRUIT

Fixing the aid

General

6.1. Although the regimes governing processed products differ according to the product, the rates of aid are usually fixed by Commission regulation in accordance with criteria laid down by the Council. In view of their crucial importance for market management, these aid calculations were examined by the Court with a view to establishing their conformity with the legislative guidelines. Instances were found where the Commission had not respected these guidelines. Paragraphs 6.2 — 6.7 describe certain examples of non-respect, some of which may have led to a higher level of aid than would otherwise have been the case. Paragraphs 6.8 — 6.13 treat of instances where the Commission, though not in breach of the guidelines, is enjoined to take steps to improve its financial management of the market.

Fruit in syrup and dried fruit

6.2. Article 5 of the relevant regulation ⁽¹⁾ states that 'the amount of the aid shall be so fixed as to enable the Community product concerned to be marketed'. The information which should be taken into account is:

- (a) the aid fixed for the previous marketing year adjusted for changes in the minimum price;
- (b) the non-member country price, or the minimum import price where one exists;
- (c) the pattern of processing costs;
- (d) where relevant the prices at which the Community products are sold on the Community market.

⁽¹⁾ Council Regulation (EEC) No 426/86 of 24 February 1986 on the common organization of the market in products processed from fruit and vegetables, OJ No L 49, 27. 2. 1986.

If imports supply less than 10 % of Community consumption, according to Article 4 of Council Regulation (EEC) No 1277/84 ⁽²⁾, the third country price is considered to be unrepresentative and is replaced by a calculated price based on the Community market price trend and the outlets available.

Prices of competing products

6.3. While the aim of the aid is to compensate for the price difference between Community and third country products, the Commission services applying the procedure set out in Regulation (EEC) No 1277/84 calculate the aid to compensate for this price difference, using the price of the imported produce before the application of import duties. *Table 4* shows the products and the various rates of duty to which they are generally subject, for 1986, 1987 and 1988.

Table 4: Processed fruit-rates of duty

Processed fruit	1986 % ⁽¹⁾	1987 % ⁽¹⁾	1988 % ⁽¹⁾
Williams pears			
over 1 kg	22	22	22
equal or under 1 kg	24	24	20
Peaches			
over 1 kg	22	24	24
equal or under 1 kg	24	24	22
Cherries			
over 1 kg	22	22	22
equal or under 1 kg	26	26	26
Prunes	12	12	12
Figs	10	10	10
Sultanas	3	3	3
Currants	3	3	3

⁽¹⁾ Includes 2 % additional duty for sugar where appropriate.

6.4. For each of the products listed, customs duty raised the price of the imported product and for the products in syrup its impact was substantial. The Court considers that the price difference to be compensated by means of the aid should be that between the Community price and the price, after duty, of the imported products, since it is only at the latter price (and not the pre-duty price) that the imports are marketed within the Community. The financial effect of the inclusion of duty would be to reduce the rates of aid. For fruit in syrup, the reduction would be substantial.

⁽²⁾ Council Regulation (EEC) No 1277/84 of 8 May 1984 laying down general rules for the system of production aid for processed fruit and vegetables, OJ No L 123, 9. 5. 1984.

Lemons

6.5. The relevant Council regulation ⁽¹⁾ specifies that aid for lemon processing should not exceed the difference between minimum purchase prices in the Community and raw material prices in non-member producer countries. In the preamble to the annual regulation ⁽²⁾ fixing the aid, the Commission states that 'with a view to encouraging optimum marketing of lemon products it would seem advisable to apply the full difference between these prices'. However, the Commission in fixing the aid does not take account of the raw fruit costs in Argentina and Brazil, the main competing third countries, which together supply some 60 % of Community imports of lemon juice. Only data concerning Israel (16 % of imports), which has high raw material costs, are used. Given the generally lower raw material costs in South America the inclusion of such costs would probably result in a higher level of Community aid. While not advocating higher levels of aid, the Court recommends that the inconsistency in the annual regulation should be removed.

Oranges

6.6. In the preamble to Council Regulation (EEC) No 987/84 of 31 March 1984 ⁽³⁾ which amended Council Regulation (EEC) No 2601/69 ⁽⁴⁾, it was acknowledged that the result of the previous method of calculating the aid had been '... to establish progressively, an unwarranted commercial benefit accruing to the processing industry'. The amendment laid down that the aid would be fixed so that the processor would contribute at least 50 % of any increase in the minimum price. The intention was that, as

minimum prices increased, processors would contribute a greater percentage to raw material costs.

6.7. In the Court's view, the 1984 amendment was introduced without adequate research into processing costs. In view of this and because the 1984 arrangements did not foresee more recent developments e.g. stable or falling minimum prices, the Court wished to examine their operation. However, the Commission was unable to supply the necessary data, particularly relating to costs and profits in the industry. Since 1985/86, as minimum prices have decreased, one effect of the amendment has been that the net cost to the industry (after subsidy) of the raw material has remained unchanged. In the interests of sound market management the Court urges the Commission to undertake a comprehensive review of all the elements involved.

Monthly increases in aid for dried grapes

6.8. The minimum prices for currants and sultanas are subject to monthly increases during the period 1 November to 31 August to cover the cost of storage by producers or producer associations before processing. The visits on the spot identified a dead period in marketing from the end of June to early September. This was due to the fact that the processing industry, rather than pay an increasing minimum purchase price, preferred to await the supply of those same currants at cheaper prices after they had been purchased by a storage agency (see paragraph 4.17).

6.9. The financial effect of this is demonstrated by the development of the minimum price for sultana No 4 (the pilot product) during the 1986/87 marketing year. The cost of the raw material net of aid to the processor at the beginning of the year was 91,8 ECU/100 kg which had increased to 107,4 ECU/100 kg by the end of the marketing year (an increase of 17 %). In October the same raw material could be purchased ex-store at a fixed price of 78,1 ECU/100 kg (effectively 84,8 ECU/100 kg when the 8 % discard is taken into account). Indeed, already in September the new seasons crop became available from producers at the same minimum price and rate of aid (i.e. at a net cost of 91,8 ECU/100 kg).

6.10. While the figures vary between currants and sultanas (15 % of currants and 8 % of sultanas must be discarded by processors), and prices and aid vary according

⁽¹⁾ Council Regulation (EEC) No 1035/77 of 17 May 1977 laying down special measures to encourage the marketing of products processed from lemons, OJ No L 125, 19. 5. 1977.

⁽²⁾ For example, Commission Regulation (EEC) No 1996/87 of 7 July 1987 fixing until the end of the 1987/88 marketing year the minimum purchase price for lemons delivered to the industry and the amount of financial compensation payable after their processing, OJ No L 188, 8. 7. 1987, p. 27.

⁽³⁾ Council Regulation (EEC) No 987/84 of 31 March 1984 amending Regulation (EEC) No 2601/69 laying down special measures to encourage the processing of certain varieties of oranges, OJ No L 103, 16. 4. 1984.

⁽⁴⁾ Council Regulation (EEC) No 2601/69 of 18 December 1969 laying down special measures to encourage the processing of certain varieties of oranges, OJ No L 324, 27. 12. 1969.

to type of fruit, the overall problem remains the same. The Court believes that the Commission should examine the introduction of decreases in the minimum prices in the latter part of the marketing year so that prices would approach the level of the minimum prices for the new marketing year (and thus bring net costs of fresh produce and stored product more into line). Such a system would reduce sales to storage agencies which are reimbursed by the EAGGF for storage costs and (more importantly in this context) losses on sales. This in turn would lead to a reduction of about 3 ECU/100 kg in the net amount paid in aid i.e. financial compensation for losses on sale less processing aid.

Conclusions on aid calculation

6.11. In paragraph 6.7, reference was made to the absence of essential management data relating to production costs and profit margins in orange processing. The Court has found a general absence of such data in the Commission files for almost all processed products covered by this report and requests that the Commission undertake urgent studies of the markets in question, including profit margins, to ascertain whether present aid levels are in fact justified.

Orange processing

6.12. The aid for processing oranges was introduced as a measure to support the fresh market [see preamble to Regulation (EEC) No 2601/69 ⁽¹⁾]. However, the granting of aid to problematic varieties such as Biondo Commune and to the blood oranges Moro and Tarocco, has inhibited the effects of market demand and the switch to other varieties, thus contributing to an overall market excess. The aid system for oranges is now viewed as an end in itself and oranges are cultivated specifically to benefit from the subsidised processing outlet. However, in view of the Community's low self-sufficiency in citrus juice and the quantities of fruit destroyed, the Commission should examine whether further development of a processing

policy might not, in the end, be a more economical use of Community funds.

6.13. The varieties used for processing into juice have the same commercial value and, as differences in minimum prices of the different varieties are compensated for by the rate of aid, the net cost to the processing industry is the same. Yet, because of these differences in minimum prices and rates of aid, the present aid system requires processors to draw-up and manage a number of contracts, one for each variety of orange purchased from each producer association. In addition each delivery has to be examined to ascertain the varieties concerned. The elimination of the various controls would present savings for producers, processors and the administration which may be able to be reflected in the level of aid. The Commission should examine the feasibility of introducing a single rate of aid and minimum price for 'oranges for processing', which would have the advantage of eliminating the need for official checks on variety.

Lemon processing

Closed market in Italy

6.14. Italy prohibited the importation of lemon juice, even from other Member States, and justifies this action as being a plant health precaution under Article 36 of the EEC Treaty. In order to force the Italian authorities to relax its ban, the Council has limited the quantity of fruit processed into juice which may qualify for aid. This amount is at present 40 % ⁽²⁾.

6.15. The Commission services maintain that there is no plant health risk involved in the importation of lemon juice into Italy. The Court observes that under these circumstances the closure of the Italian market cannot be justified under Article 36 of the EEC Treaty. It is therefore questionable whether any aid is in fact justified for lemons processed and marketed in Italy during any period when a closed market exists.

⁽¹⁾ Council Regulation (EEC) No 2601/69 of 18 December 1969 laying down special measures to encourage the processing of certain varieties of oranges, OJ No L 324, 27. 12. 1969.

⁽²⁾ Council Regulation (EEC) No 1353/86 of 6 May 1986 amending Regulation (EEC) No 1035/77 laying down special measures to encourage the marketing of products processed from lemons, OJ No L 119, 8. 5. 1986.

Quality criteria

6.16. Under Article 9 of Council Regulation (EEC) No 1562/85 ⁽¹⁾ up to 15 % by weight of lemons processed may be 'substandard' provided they are suitable for processing. This tolerance is, according to official agronomists in both Greece and Italy, unworkable. It is considered that in such circumstances all lemons should be required to meet minimum quality requirements such as those set for oranges (class III). The Commission services have been unable to give an explanation for this rule which is all the more questionable considering that during the marketing years 1984/85, 1985/86, 1986/87 53 800, 79 300 and 483 900 tonnes respectively of good quality lemons (i.e. Class II or above) were withdrawn and, for the most part, destroyed.

*Dried grapes**Threshold guarantee*

6.17. The Court considers that the present threshold guarantee for currants, which was set at 70 000 tonnes by Council Regulation (EEC) No 989/84 of 31 March 1984 ⁽²⁾ is too high, particularly as there are considerable problems in marketing the crop. Average production of currants in recent years is 75 000 tonnes. In order to maintain quality, 5 % of production must be withheld from processing by the producer and a further 15 % must be withheld by the processor himself at the time of processing if the product is to be supplied for human consumption and receive aid. However, even with these large discards, quantities are regularly 'handed over' to storage agencies at the end of the marketing year. In recent years the average quantity sold to intervention has been about 28 000 tonnes. Sales are made from storage for human consumption and for pickle manufacture, but half of the quantity stored (14 000 tonnes) cannot be sold for human consumption when it would be worth about 150 Drachma/kg and is sold at

between 10 and 20 Drachma/kg for animal fodder. The cost to the Community of storage and reimbursing the losses on sale are about 18 Mio ECU.

6.18. According to Greek officials and to trade representatives currants can be stored for 20 months without marked deterioration in quality. Yet, regular sales have to be made from storage at substantially reduced prices in order to avoid a build up of stocks. The Community is thus 'locked into' a situation where overproduction has to be disposed of at a considerable loss in order to avoid disturbance of each new marketing year.

6.19. In the Court's view the Commission should examine the threshold guarantee with a view to proposing a more suitable level. The Greek authorities have said that under Regulation (EEC) No 777/85 of 26 March 1985 ⁽³⁾ 3 000 hectares of currants are intended to be grubbed up, out of a present total area of 26 000 hectares. It may thus be appropriate to examine the threshold level in conjunction with this.

Product quality

6.20. The cost of disposing each year of between 10 000 and 15 000 tonnes of currants for non-human consumption varies from 11 to 18 Mio ECU. One of the ways by which production could be brought more into line with demand is by increasing the percentage of the currants to be discarded by processors (at present 15 %). Officials, producers, processors and storage agencies believe that the quantity discarded could for currants be increased to 25 to 30 %. While processors might need additional compensation for this, perhaps in the form of an adjustment to the minimum purchase price or by an increase in the aid paid on the remaining quantity, the discarded product could be disposed of throughout the year for approved non-food use without the expense of storage and cheap disposal. Such a change might cut overall expenditure, with between 7 000 and 10 000 tonnes fewer currants being sold to storage agencies. Also it would improve the marketing potential by increasing the quality of the crop. Any product that did enter store would also be of a higher quality and thus more saleable.

⁽¹⁾ Commission Regulation (EEC) No 1562/85 of 7 June 1985 laying down detailed rules for the application of measures to encourage the processing of oranges and the marketing of products processed from lemons, OJ No L 152, 11. 6. 1985.

⁽²⁾ Council Regulation (EEC) No 989/84 of 31 March 1984 introducing a system of guarantee thresholds for certain processed fruit and vegetable products, OJ No L 103, 16. 4. 1984.

⁽³⁾ Council Regulation (EEC) No 777/85 of 26 March 1985 on the granting, for the 1985/86 to 1989/90 wine years, of permanent abandonment premiums in respect of certain areas under vines, OJ No L 88, 28. 3. 1985.

7. SUMMARY — CONCLUSIONS

Withdrawal system — fresh fruit and vegetables

Observations on administrative system

7.1. The enquiry into the withdrawals system has revealed a number of control deficiencies at Member State level. These include the discovery that many of the producer organizations operating in southern Italy do not meet the requirements of the basic regulation thus casting serious doubts on the procedures for initial recognition and monitoring of these organizations (paragraphs 3.12 — 3.16). The failure of the Community regulations to recognize officially that substantial quantities of withdrawn produce are in fact destroyed has resulted in inadequate supervision of that procedure in the Netherlands (paragraph 3.17) and ambiguous reporting of destruction in several Member States (paragraph 3.18). In those cases where a useful outlet was found for market withdrawals the control over the cash proceeds from these sales was found to be almost non-existent (paragraph 3.20). Finally it was found that the Community regulations are being ignored in Italy and Greece where producer organizations are delaying payment to their members in respect of market withdrawals until they themselves are paid by the intervention agency (paragraphs 3.21 — 3.22).

Market management and policy aims

7.2. The responsible authorities are not making full use of the possibilities contained in the basic regulation for end use of withdrawn produce in order to avoid destruction (paragraphs 5.2 — 5.8), a fact which has led to repeated criticisms by the European Parliament. Outlets which could be further expanded include free distribution and sales to the processing industry (paragraphs 5.4 and 5.6).

7.3. The procedures for activating withdrawals are based on the more highly organized Dutch system (paragraph 3.6) but do not readily adapt themselves to the type of market organization found in the Mediterranean countries. As a consequence producer organizations in these countries have far too much discretion. The regulations should be clarified so as to place the onus on producer organizations to justify their withdrawal operations (paragraph 5.1). The pricing policy of the authorities should be adjusted so that withdrawal is never a more attractive option for producers

than sale to processing undertakings (paragraphs 5.9 — 5.12). In view of the consistently high withdrawals in the mandarin market (80 % in 1985/86) and the demand which exists for mandarin by-products consideration should be given to the introduction of processing aid (paragraphs 5.13 — 5.14). The progress on the citrus fruit reconversion programme should be critically examined by the Commission as regards the type of substitution which is taking place (paragraphs 5.15 — 5.17).

7.4. The question of quality control inspections has not been accorded the necessary priority by the Commission, although the European Parliament had repeatedly urged it to do so.

Processed fruit

Observations on the administrative system

7.5. The Court considers that the anti-fraud activity recently conducted in Italy is to be commended; but that the extent of irregularities detected gives considerable cause for concern (paragraph 4.5). Urgent action should be taken by the Commission to review the control system laid down for processed fruit and tomatoes with a view to generally tightening controls. Member States should in addition urgently seek to improve their own verification system.

7.6. Physical checks on the input of raw produce and output of processed product need to be considerably increased. Not only should these checks be more frequent but they should include detailed checks on prime records and the credibility of output in relation to input (paragraphs 4.6 — 4.11). Discrepancies of any kind should be followed up until satisfactorily resolved. The Court considers that without a concerted effort to improve each of these aspects of control, Community expenditure will continue to be under threat from frauds and irregularities.

7.7. Similarly with the system for storage of dried grapes, storage agencies should be properly approved, and act independently of any other organization in the interests of the aid system. There is a need to improve stock controls generally and to ensure that the quantities taken over are

properly recorded and accounted for until sold (paragraphs 4.18 — 4.24). Where product is disposed of at low prices for animal food, the controls over physical denaturing and end use should be improved (paragraphs 4.25 — 4.26).

Market management

Aid calculation

7.8. The non-inclusion of the duty element in the price of imported processed fruit may have led, *ceteris paribus*, to higher levels of aid (paragraphs 6.3 — 6.4). In relation to lemons, the Court recommends the removal of an inconsistency in the Commission's annual regulation (paragraph 6.7).

7.9. The Court advocates a thorough review of production costs and profit margins in all the processed fruit markets (paragraph 6.11), but particularly in relation to the processing of oranges, where the application of corrective rules adopted in 1984 may not be suitable in present circumstances (e.g. decreasing minimum prices) (paragraphs 6.6 — 6.7).

7.10. The monthly increases in the minimum price of dried grapes during the marketing year have, in the Court's view, led to problems in marketing and the Commission should examine the introduction of cuts towards the end of the marketing year (paragraphs 6.8 — 6.10).

General management

7.11. The aid for processing oranges, while assisting with the disposal of fresh fruit, has helped to insulate the varieties which are less in demand, from market pressures. This should be examined in order to ensure that the scheme's objectives are clear and do not conflict with other policies in the guarantee and guidance spheres (paragraph

6.12). In addition, it would be opportune to examine whether a scheme for 'oranges for processing' with a single minimum price and rate of aid should be introduced (paragraph 6.13).

7.12. The Commission should examine the justification for the payment of aid on lemon juice produced and marketed in Italy and the fact that substandard lemons may receive aid when lemons of Class II quality or above are withdrawn and destroyed (paragraphs 6.14 — 6.16).

7.13. The market in dried grapes should be examined with a view to bringing production and demand into line. The study should examine all aspects of the processing aid and storage systems for dried grapes. Until the market is brought into balance the Community will continue to buy, store and sell at a considerable loss surplus produce, without rectifying the underlying market problems (paragraphs 6.17 — 6.20).

Concluding remarks

7.14. The findings of this report are of considerable significance, not least in view of the expected increase in withdrawal and processing operations in Spain and Portugal over the next few years and hence the growth in Community expenditure. The measures described and commented upon have proved not to be able to cope with serious imbalances between production and real demand for fruit and vegetables within the Communities. There is a need for a vigorous programme to deal with structural surpluses and unwanted products. In this regard progress has been slow.

7.15. The examination of the market system shows weaknesses, some of which are quite serious. As far as the fresh market is concerned, neither the Commission nor the national intervention agencies at present adequately control the multiplicity of producer organizations. In the Court's view this is due to the absence of specific control guidelines in the governing regulations and a scarcity of

reports by Member States to the Commission, they are regularly beset by fraudulent and irregular practices. The frequency, coverage and effectiveness of official inspections require to be stepped up significantly.

7.16. Finally, a system which channels better quality produce for animal feed and for destruction, while reserving a lower quality for processing, is considered by the Court to be unacceptable.

The present report was adopted by the Court of Auditors at Luxembourg at its meeting of 30 March 1989.

For the Court of Auditors
Marcel MART
President

ANNEX I

PRODUCTION AND BUDGETARY EXPENDITURE

Production

1. *Table 5* sets out the total harvest and the quantities withdrawn from the market for those products eligible for withdrawal for the marketing years 1982/83 to 1986/87. During this period production has remained relatively stable at a level of between 29,1 million tonnes and 30,8 million tonnes while market withdrawals have varied between 1,2 million tonnes and 2,9 million tonnes. Lower production does not necessarily mean lower withdrawals as was shown during the 1986/87 marketing year when production, at a four year low of 29,1 million tonnes, resulted in an historically high level of withdrawals of 2,9 million tonnes (10 % of production). Other factors besides increased production which can precipitate market withdrawals include the availability of processing outlets, variations in export sales, competition from imports, changing consumer tastes and climatological factors affecting the speed of ripening. The high level of withdrawals during the 1986/87 marketing year resulted from a combination of several of the above factors but in particular from reduced demand from the processing industries for tomatoes and citrus fruit. In the case of tomatoes this was due to the imposition of production quotas in the previous year while in the case of citrus fruit it was due to dissatisfaction with the level of aid available.

2. Production and withdrawal statistics by Member State are shown in *Table 6*. Italy is by far the largest producer of fruit and vegetables eligible for withdrawal, accounting for between 48 % and 56 % of Community production during the periods indicated. The proportion of production withdrawn from the market during the marketing years 1985/86 and 1986/87 at 10,8 % and 13,1 % respectively, was also higher in Italy than in any other Member State. In fact, of the 2,9 million tonnes of production withdrawn during the 1986/87 marketing year, 1,9 million tonnes were withdrawn in Italy.

3. *Table 7* shows the production of processed fruit and vegetables broken down by product and by Member State for the marketing years 1982/83 to 1986/87. The vast bulk of processed oranges, lemons, tomatoes and pears are of Italian origin. However, Greece was also a substantial producer of dried figs and grapes, processed tomatoes, peaches and oranges. These production figures are reflected in the EAGGF amounts expended shown in *Table 10*.

Budgetary Expenditure

4. Community expenditure on fruit and vegetables averaged 1 125 Mio ECU per annum between 1982 and 1987. Inter-year comparisons are difficult due to changes in the budgetary rules but it can be seen from *Table 8* that total expenditure, has increased from 914,3 Mio ECU in 1982 to a peak of 1 454,6 Mio ECU in 1984 before falling again to the 1987 level of 967,1 Mio ECU (1 120,9 Mio ECU on a twelve month basis). Important variations have also occurred on certain budget lines including expenditure on market withdrawals (item 1501) which has fluctuated widely over the period but whose 1987 level of 417,3 Mio ECU (475,9 Mio ECU on a 12 month basis) was more than twice the 1982 level of 192,1 Mio ECU. In contrast production aid for tomato based products (item 1511) has shown a marked decline from a peak of 556,0 Mio ECU in 1984 to 209,7 Mio ECU (261,5 Mio ECU on a 12 month basis) in 1987 resulting mainly from the imposition of quotas in that market. Production aid for fruit based products (item 1512) at 149,7 Mio ECU (185,2 Mio ECU on a 12 month basis) has also declined recently due mainly to falling expenditure on dried fruit. It can be seen that expenditure on the fresh market is increasing whereas expenditure on the processed market is decreasing.

Table 5: Harvest and withdrawal statistics by product — EUR 10

(1 000 t)

Marketing year	Product											Total
	Cauli-flower	Tomatoes	Auber-gines	Peaches	Apri-cots	Lemons	Pears	Fresh Grapes	Table Apples	Manda-rins	Oranges	
1982/83												
Harvest	1 664,0	7 788,0	424,0	2 222,0	344,0	810,0	2 483,0	2 326,0	8 565,0	257,0	2 238,0	29 121,0
Withdrawal	40,1	54,4	0,0	239,7	0,3	160,4	90,5	—	1 146,9	14,7	126,9	1 873,9
(%) (1)	(2,4)	(0,7)	(0,0)	(10,8)	(0,1)	(19,8)	(3,7)	(—)	(13,4)	(5,7)	(5,7)	(6,5)
1983/84												
Harvest	1 659,0	9 200,9	443,0	2 318,2	395,0	1 045,3	2 444,7*	2 852,0	6 188,0	315,8	2 963,6	29 825,5*
Withdrawal	28,5	29,7	0,2	337,8	49,8	450,6	156,4	—	125,3	183,8	686,5	2 048,6
(%) (1)	(1,7)	(0,3)	(0,0)	(14,6)	(12,6)	(43,1)	(6,4)	(—)	(2,0)	(58,2)	(23,2)	(6,9)
1984/85												
Harvest	1 428,0*	10 602,5	414,0	2 296,3	373,0	881,5	2 359,3*	2 493,0	7 357,0	250,3	2 362,5	30 817,4*
Withdrawal	23,8	28,8	0,0	338,0	0,2	53,8	79,5	0,1	660,9	11,2	30,5	1 227,0
(%) (1)	(1,7)	(0,3)	(0,0)	(14,7)	(0,1)	(6,1)	(3,4)	(0,0)	(9,0)	(4,5)	(1,3)	(4,0)
1985/86												
Harvest	1 646,0	10 596,5	413,0	2 108,8	428,0	930,2	1 944,0*	2 516,0	6 334,0	308,1	2 772,6	29 997,2*
Withdrawal	20,3	990,5	1,0	364,7	11,9	79,3	28,7	—	184,6	248,1	262,1	2 191,2
(%) (1)	(1,2)	(9,4)	(0,3)	(17,3)	(2,8)	(8,5)	(1,5)	(0,0)	(2,9)	(80,5)	(9,5)	(7,3)
1986/87												
Harvest	1 606,0*	7 827,9*	419,0	2 148,1	398,0	1 013,3	2 125,7	2 744,0*	7 401,0	360,2	3 057,7	29 100,9*
Withdrawal	145,2	652,3	0,8	354,5	0,6	483,9	34,3	0,1	354,0	211,0	665,9	2 902,6
(%) (1)	(9,1)	(8,4)	(0,2)	(16,6)	(0,2)	(47,8)	(1,7)	(—)	(4,8)	(58,6)	(21,8)	(10,0)

* Estimate EUROSTAT.

(1) The harvest figures are on a calendar year basis (Source EUROSTAT January 1988) while the withdrawal figures are based on marketing years (source DG VI). The percentages should therefore be treated with caution.

Table 6: Harvest and withdrawal statistics by Member State
(Products eligible for withdrawals)

(1 000 t)

	D	GR	F	I	NL	Others	EUR 10
1982/83							
Harvest	3 181,0	4 783,0	4 426,0	14 048,0	1 148,0	1 535,0	29 121,0
Withdrawal	97,1	222,1	427,2	971,7	89,0	66,8	1 873,9
(%) (1)	(3,1)	(4,7)	(9,7)	(7,0)	(7,8)	(4,4)	(6,5)
1983/84							
Harvest	1 808,0	4 936,8	3 961,4	16 663,3	1 082,0	1 374,0*	29 825,5*
Withdrawal	0,7	484,0	62,0	1 465,2	24,5	12,2	2 048,6
(%) (1)	(0,1)	(9,9)	(1,6)	(8,8)	(2,3)	(0,9)	(6,9)
1984/85							
Harvest	2 327,0	5 603,0	4 330,4	15 954,0	1 120,0	1 483,0*	30 817,4*
Withdrawal	8,0	206,5	382,7	553,0	29,2	47,6	1 227,0
(%) (1)	(0,4)	(3,7)	(8,9)	(3,5)	(2,7)	(3,3)	(4,0)
1985/86							
Harvest	1 829,0	5 223,9	4 373,2	16 109,1	997,0	1 465,0*	29 997,2*
Withdrawal	2,6	204,7	193,9	1 739,3	24,3	26,4	2 191,2
(%) (1)	(0,2)	(4,0)	(4,5)	(10,8)	(2,5)	(1,9)	(7,3)
1986/87							
Harvest	2 734,0	4 903,6	3 986,4	14 742,9	1 177,0	1 557,0*	29 100,9*
Withdrawal	47,6	605,5	204,9	1 931,3	51,5	61,8	2 902,6
(%) (1)	(1,8)	(12,4)	(5,2)	(13,1)	(4,4)	(4,0)	(10,0)

* Estimate EUROSTAT.

(1) The harvest figures are on a calendar year basis (Source EUROSTAT January 1988) while the withdrawal figures are based on marketing years (source DG VI). The percentages should therefore be treated with caution.

Table 7: Production of processed fruit and vegetables ⁽¹⁾

(1 000 t)

Marketing year	Country					
	EUR 10	GR	F	I	NL	Others
1982/83						
Dried figs	—	—	—	—	—	—
Dried grapes	141,9	141,9	—	—	—	—
Prunes	36,4	—	35,4	1,0	—	—
Williams pears	123,4	0,5	32,0	90,0	0,9	0,0
Cherries	103,8	2,5	16,2	15,0	12,3	57,8
Peaches	311,5	155,2	29,5	126,8	—	—
Tomatoes	1 556,4	186,0	104,9	1 265,5	—	—
Lemons ⁽³⁾	280,6	10,1	—	270,5	—	—
Oranges ⁽³⁾	517,3 ⁽²⁾	104,2 ⁽²⁾	—	413,1	—	—
1983/84						
Dried figs	—	—	—	—	—	—
Dried grapes	173,7	173,7	—	—	—	—
Prunes	26,5	—	25,5	1,0	—	—
Williams pears	121,4	1,0	31,6	88,0	0,8	0,0
Cherries	120,7	3,7	14,8	17,5	12,8	71,9
Peaches	426,8	159,3	39,3	228,2	—	—
Tomatoes	2 093,7	195,9	86,2	1 811,6	—	—
Lemons ⁽³⁾	257,8 ⁽²⁾	22,6 ⁽²⁾	—	235,2	—	—
Oranges ⁽³⁾	608,9	89,5	—	519,4	—	—
1984/85						
Dried figs	10,7	10,7	—	0,0	—	—
Dried grapes	136,0	136,0	—	—	—	—
Prunes	40,2	—	38,9	1,3	—	—
Williams pears	99,6	0,6	29,1	68,9	1,0	0,0
Cherries	87,1	0,4	17,1	9,3	9,0	51,3
Peaches	423,4	180,2	30,2	213,0	—	—
Tomatoes	2 761,5	280,5	102,4	2 378,6	—	—
Lemons ⁽³⁾	177,9 ⁽²⁾	13,2 ⁽²⁾	—	164,7	—	—
Oranges ⁽³⁾	669,0	130,8	—	538,2	—	—
1985/86						
Dried figs	12,7	11,3	—	1,4	—	—
Dried grapes	158,0	158,0	—	—	—	—
Prunes	28,2	—	26,7	1,5	—	—
Williams pears	83,4	2,3	25,4	54,5	1,2	0,0
Cherries	77,5	0,9	11,2	9,5	6,7	49,2
Peaches	567,7	173,2	35,2	359,2	—	0,1
Tomatoes	1 925,4	255,0	118,4	1 552,0	—	—
Lemons ⁽³⁾	224,8 ⁽²⁾	18,4 ⁽²⁾	—	206,4	—	—
Oranges ⁽³⁾	811,7 ⁽²⁾	68,4 ⁽²⁾	—	743,3	—	—
1986/87						
Dried figs	11,4	11,4	—	0,0	—	—
Dried grapes	116,0	116,0	—	—	—	—
Prunes	36,0	—	36,0	—	—	—
Williams pears	69,6	1,3	18,9	49,4	0,0	0,0
Cherries	71,3	0,5	6,2	3,8	9,2	51,6
Peaches	515,4	201,7	34,7	279,0	—	—
Tomatoes	1 392,2	140,2	75,4	1 176,6	—	—
Lemons ⁽³⁾	100,7 ⁽²⁾	10,7 ⁽²⁾	—	90,0	—	—
Oranges ⁽³⁾	721,5 ⁽²⁾	145,1 ⁽²⁾	—	576,4	—	—

: Data not available.

⁽¹⁾ The quantities shown for oranges and lemons are those used for processing. For products other than oranges and lemons the weight of the processed output is shown. Until 1983/84 figures relating to processed fruit and tomatoes include the weight of syrup or juice; from 1984/85 net weights are recorded. For Williams pears and cherries total production including that outside allocated quota is recorded.

Source: Commission services DG VI.

⁽²⁾ Provisional.⁽³⁾ Quantities on which aid was paid.

Table 8: Community expenditure on the fruit and vegetables market

(Mio ECU)

Budget line	Description	1982	1983	1984	1985	1986	1987 ⁽¹⁾
1500	Export refunds, fresh fruit and vegetables	53,1	51,9	50,1	63,0	65,0	52,3 (55,0)
1501	Financial compensation for withdrawals and buying-in and for free distribution	192,1	303,5	446,1	213,4	338,0	417,3 (475,9)
1502	Financial compensation for promoting Community citrus fruit	14,6	15,2	19,4	25,5	27,0	22,4 (22,6)
1503	Financial compensation for processing citrus fruit	98,6	79,3	103,6	100,0	126,8	93,3 (96,1)
1509	Other intervention (fresh fruit and vegetables)	—	—	—	—	—	0,6 (0,7)
150	Fresh fruit and vegetables	358,4	449,8	619,2	401,9	556,8	586,0 (650,3)
1510	Export refunds, processed fruit and vegetables	6,5	6,2	8,5	11,5	12,0	14,5 (16,7)
1511	Production aid, tomato-based products	418,5	469,2	556,0	528,6	250,4	209,7 (261,5)
1512	Production aid, fruit-based products	124,2	265,7	264,9	281,2	160,5	149,7 (185,2)
1513	Production aid, tinned pineapple	6,8	5,2	6,0	7,6	6,3	7,2 (7,2)
151	Processed fruit and vegetables	555,9	746,3	835,4	828,8	429,2	381,1 (470,6)
15	Fruit and vegetables	914,3	1 196,1	1 454,6	1 230,7	986,0	967,1 (1 120,9)

⁽¹⁾ Due to changes in the financing of EAGGF where advances of expenditure have been replaced by reimbursements, 1987 expenditure reflects payments by paying agencies for 10 months (January to October). The amounts shown in brackets represent payments made by paying agencies for January to December 1987 (i.e. including reimbursements made to Member States in January and February 1988).

Table 9: Community expenditure on financial compensation for withdrawal of fresh fruit and vegetables

(Mio ECU)

Products	Marketing year ⁽¹⁾				
	1982-83	1983-84	1984-85	1985-86	1986-87
Cauliflower	3,4	2,6	2,3	1,8	13,7
Tomatoes	5,1	2,7	2,6	89,6	53,4
Aubergines	0,0	0,0	0,0	0,1	0,1
Peaches	55,0	86,4	81,6	89,7	85,3
Apricots	0,1	11,0	0,1	2,6	0,1
Lemons	38,0	111,5	14,9	16,8	97,6
Pears	10,6	18,6	9,0	3,4	4,1
Grapes	—	—	0,0	—	0,0
Apples	127,8	14,7	71,0	22,1	42,2
Mandarins	3,3	46,4	2,7	62,4	50,9
Oranges	21,4	150,9	7,1	60,9	141,7
Total	264,7	444,8	191,3	349,4	489,1

⁽¹⁾ Since the analysis is by marketing year and is limited to financial compensation the figures differ from those shown in Table 8 (item 1501).

Table 10: Budgetary expenditure for processing fruit and vegetables

(Mio ECU)

Type	Year	1983			1984			1985			1986			1987 (1)								
		To- tal	of which:		To- tal	of which:		To- tal	of which:		To- tal	of which:		To- tal	of which:							
			GR	F		I	GR		F	I		GR	F		I	GR	F	I				
1503																						
Citrus processing																						
Oranges		79,3	8,4	—	70,9	103,6	6,7	—	94,9	80,0	8,3	—	71,7	98,6	4,9	—	93,7	82,7	7,8	—	72,8	
Lemons				—			2,0	—		20,0	1,7	—	18,3	28,2	2,4	—	25,8	13,4	2,0	—	11,4	
Total 1503		79,3	8,4	—	70,9	103,6	8,7	—	94,9	100,0	10,0	—	90,0	126,8	7,3	—	119,5	96,1	9,8	—	84,2	
1511																						
Tomato processing		469,2	61,6	31,8	375,8	556,0	58,1	25,4	472,6	528,6	79,7	31,8	417,1	250,4	34,4	14,6	195,6	261,5	31,3	15,8	179,3	
1512																						
Fruit processing															12,7	4,3	33,2	81,3	23,1	1,4	42,4	
Peaches																						
Cherries, pears and prunes		157,0	31,6	37,0	61,9	109,9	15,7	25,4	61,4	140,6	26,9	33,1	74,9	88,5	0,2	21,5	10,3	39,5	0,4	26,9	10,1	
Figs, dried grapes															51,2	50,6	—	0,6	46,5	45,4	—	0,3
Storage																						
Figs, dried grapes		108,7	108,3	—	0,4	155,0	154,5	—	0,4	140,6	139,8	—	0,7	0,7	0,7	—	—	1,6	1,6	—	—	
Losses on sale																						
Figs, dried grapes															20,1	20,1	—	—	16,3	16,3	—	—
Total 1512		265,7	139,9	37,0	62,3	264,9	170,2	25,4	61,8	281,2	166,7	33,1	75,6	160,5	84,3	25,8	44,1	185,2	86,8	28,3	52,8	
Gen. total		814,2	209,9	68,8	509,0	924,5	237,0	50,8	629,3	909,8	256,4	64,9	582,7	537,7	126,0	40,4	359,2	542,8	127,9	44,1	316,3	

⁽¹⁾ Payments made by paying agencies from January to December 1987 (see footnote 1, Table 8).

5. Expenditure on withdrawals (item 1501) for the 1982/83 to 1986/87 marketing years is analysed by product in *Table 9*. It can be seen that the most costly products are the citrus fruit group (oranges, lemons and mandarins) which together accounted for 290,2 Mio ECU or 59 % of expenditure in 1986/87, followed by apples, peaches and tomatoes. Significant year to year variations in expenditure for some products — notably citrus fruit — can be explained principally by the cyclical nature of production and the availability of processing outlets.

6. *Table 10* sets out the EAGGF expenditure on processed fruit for 1983 to 1987. Most expenditure on the production of citrus juice and the processing of tomatoes and fruit in syrup takes place in Italy, whereas Greece expends most on the processing of dried fruit, due mainly to payments in respect of dried grapes. However expenditure on dried figs and grapes (about 85 % of which relates to dried grapes), has fallen substantially. The high amounts in 1984 and 1985 compared to the 1986 and 1987 figures are due in part to a special disposal for animal feed and distillation of 76 000 tonnes of dried grapes and 6 500 tonnes of dried figs from 1 November 1984 and to the fact that from the 1984/85 marketing year the rates of aid, expressed in ECU have decreased by about one-third. Other rates of aid have remained fairly stable except for peaches in syrup where, following trade negotiations with the USA authorities the rate of aid expressed in ECU was decreased by 25 % from the 1986/87 marketing year. No aid was paid on cherries from the 1987/88 marketing year.

ANNEX II

SETTING THE WITHDRAWAL PRICE FOR FRESH FRUIT AND VEGETABLES

1. Intervention prices are pitched at a level which is considerably below normal market prices. The wide disparity derives from the fact that the aid system is only intended to prevent a total collapse in producers' incomes during periods of low prices — it is not intended to provide guaranteed income support over extended periods of excess supply.

2. The basic regulation in fact provides two levels of market intervention:

- (a) intervention by way of withdrawal from the market by the producer organizations themselves at a price determined by them (the withdrawal price). This price will usually be higher than the buying-in price described below;
- (b) buying in by the intervention agencies at a standard price (the buying-in price).

Since the buying-in price is lower than the withdrawal price, buying in is designed as a safety net to meet the situation where, for example, producers have not formed organizations, and withdrawals are therefore not possible. The margin between the two prices (10 %) is designed to encourage the formation of producer organizations.

3. For the products listed in paragraph 3.3 of this Report the Council fixes each year a basic price and a buying-in price. Basic prices originally represented the average price level in Community markets during a defined period but they are now adjusted annually by the Council taking into account such factors as the need to support farmers' incomes, to stabilize market prices and to consider the interests of consumers. They serve simply as a reference point for the buying-in prices which are fixed by Council regulations at varying

proportions of the basic prices (e.g. cauliflowers, tomatoes, aubergines — 40 % to 45 %; apples and pears — 50 % to 55 %; citrus fruit — 60 % to 70 %). The buying-in prices are further varied according to quality, variety, etc. so as to favour marketable varieties and higher qualities.

4. Buying in by the intervention agencies which was last operated in Greece in 1981 is no longer necessary due to the extensive network of producer organizations now in existence; withdrawal prices are in fact the only relevant support prices. As already mentioned, these prices are determined by the organizations themselves, but, for the produce eligible for Community aid (those referred to in paragraph 3) they normally correspond to the maximum level of the aid, i.e., the buying-in price plus 10 % of the basic price. The producers receive from their producer organizations an indemnity which may not exceed an amount resulting from the application of the withdrawal price to the quantities withdrawn. The financial compensation granted to producer organizations conducting market withdrawals is therefore equal to the total of indemnities so paid, less any receipts from disposals of the produce.

5. Recently a system of intervention thresholds has been introduced which will have the effect of reducing, for certain produce, the level of Community support if the quantities withdrawn exceed certain levels. The system applies to tomatoes, mandarins and clementines, as from 1987/88, and to oranges, lemons, satsumas, nectarines and peaches from 1988/1989. If withdrawals exceed the levels fixed, the rate of support on the excess is reduced progressively, subject to a maximum of 20 %.

6. In the two years since its introduction the scheme has not been called into effect due to the fact that intervention has remained below the threshold levels.

COMMISSION REPLY

1. INTRODUCTION

General observations

Fruit and vegetable production accounts for about 14 % of total agricultural output in the Community. Over the last three years budgetary expenditure in the sector, which includes both fresh and processed products, has averaged about 1 000 million ECU, which is equivalent to approximately 4 % of total EAGGF Guarantee Section expenditure.

This expenditure is used to stabilize the market, either by seeking to cut production when necessary or by channelling Community production towards new outlets in line with market requirements and stiffer competition.

The observations made by the Court of Auditors are mainly focused on citrus fruit and on producers' organizations concentrated in certain well-defined regions of the Community. The Commission's view is that most producers' organizations for all the products covered by the market organization for fruit and vegetables function adequately. These organizations fulfil the role required of them in so far as they act as market regulators, as regards both products subject to the price and intervention arrangements and other products, without giving rise in so doing to expenditure for the EAGGF Guarantee Section in respect of the latter.

As regards intervention in respect of citrus fruit, in January 1989 the Commission proposed to the Council a set of measures intended to solve the problem of fresh products for which no outlet can be found by sending surplus production for processing.

For this purpose, provision is made for the withdrawal price to be fixed at a level equal to the minimum price paid to producers for oranges delivered for processing. To achieve this, the Commission proposes lowering the withdrawal prices set according to variety, size or presentation. The proposal includes a single minimum

producer price for all the different varieties sent for processing and provision for the system of aid for processing to be extended to include mandarins for three years. The proposal also includes provision for the minimum price to be fixed at the same level as the withdrawal price. Clementines and satsumas will be covered by the same system in order to avoid withdrawals.

The Commission takes the view that these proposals provide an adequate response to the main observations made by the Court of Auditors and that they will allow better management of budget appropriations intended to cover difficulties in disposing of the products in question.

1.5. The Commission would refer to its replies at point 7: 'Conclusions'.

3. ADMINISTRATION OF THE WITHDRAWAL SYSTEM FOR FRESH FRUIT AND VEGETABLES

Rules for granting financial compensation

Activating the system

3.6. The Commission would point out that the auction system is used in certain regions of the southern Member States. In addition, systems set up in other regions to keep all operators informed of price quotations ensure adequate market transparency.

Disposal of withdrawn fruit

3.9 – 3.10. In the Commission's view it would not be advisable to make explicit provision for destruction to be included in the choice of methods for disposing of withdrawn products.

*Observations related to the administration of the withdrawal system**Recognition and monitoring of producer organizations*

3.13. The Commission considers that the role played by the producer organizations is vital to the proper functioning of the market organization in so far as their chief activity is that of marketing the produce of their members. It is also possible, in the context of a common agricultural policy intended to create a new market equilibrium, that producer organizations might be called upon to play a more important role in the modernization of marketing methods and conversion of their members' holdings.

It is the Commission's opinion that there should be greater scope at Community level for keeping track of the activities of these organizations. It has undertaken an in-depth study, in particular as regards the possibilities for introducing more comprehensive rules for producer organizations, designed in themselves to prevent fraud and to be easy to monitor.

3.14 – 3.15. As a result of an inspection by the Commission auditors in Sicily in 1988 an extended enquiry in the fruit and vegetables sector is currently taking place in Italy. This inquiry will include the procedures for recognition of producers' organizations, and their subsequent supervision. In addition the Commission services are currently reviewing the procedures employed in a number of other Member States to ensure that Community regulations are respected.

Supervision of destruction operations

3.17 – 3.19. See also the answer to point 3.9. Since the products in question are perishable, disposal must take place within a short period following withdrawal. Therefore, either they perish of their own accord, or they are destroyed by the operators. The use of withdrawn products, including their destruction, is monitored in all Member States except for the Netherlands. However, given the nature of the producer organizations in the Netherlands, as pointed out by the Court of Auditors itself, it would be remarkable if they were to place on the market, in order to destabilize it, products which they themselves had withdrawn from the market in order to stabilize it. However, the Commission will endeavour to secure further guarantees on this point.

Cash proceeds from sale of withdrawn produce

3.20. Given that receipts from sales of produce for animal feed in 1987 in Italy represented less than 0,02 % of the gross amount declared by that Member State for withdrawals from the market, audit priority was given to other aspects of the measure. During the systems audit in this sector the Commission will carry out the necessary checks.

Timing of financial compensation

3.22. This matter will be taken into account in the context of the measures currently being examined with a view to improving the performance of the producer organizations (see the replies to points 3.12 and 3.13). However, it should be pointed out that this practice has no negative financial consequences for the EAGGF.

4. THE ADMINISTRATION OF THE AID SYSTEM FOR PROCESSED FRUIT

*Fruit in syrup**General observations*

4.5. The Commission can confirm that during the last quarter of 1988 the Italian authorities, within the framework of Article 3 of Regulation (EEC) No 283/72, communicated 17 new cases of irregularities in the processed fruit and vegetable sector, involving an estimated amount of approximately 40 million ECU.

*Control visits**Checks on input and output*

4.9. The Commission is aware of the difficulties involved in checking products processed from fruit and vegetables. The physical presence of inspectors at processing establishments on a day-to-day basis could improve the control system. However, it would be necessary to prevent the

execution of such checks from hindering the normal activity of the processing factories, which often work on a continuous production basis.

Nevertheless, the minimum quality requirements laid down in the Community rules for products eligible for production aid oblige the processor to record the results of the daily verifications in a register. In addition, where the processing of tomatoes is concerned, the methods provided for in Article 15 of Regulation (EEC) No 1764/86 are applied, in conjunction with other methods where necessary, to determine eligibility for production aid.

4.10. Under the current system Member States are obliged to refuse to pay the aid if the finished products do not satisfy the minimum quality requirements. However, in making the rules more stringent in this area the Commission will take account of the comments made by the Court of Auditors.

Processed tomatoes

4.14. The Commission has repeatedly asked Italy to notify it of the results of the enquiry to which the Court of Auditors refers. The Italian authorities have always claimed that the results were not available. At the beginning of December 1988, the Commission services instructed Italy to communicate the results of the enquiry by a set deadline.

The Italian authorities informed the Commission that the enquiry revealed fraud amounting to about 9 million ECU at one of the processing undertakings inspected; results from the inspection of the other undertaking are not yet available. The Commission services are actively pursuing this dossier.

Dried grapes

Approval and monitoring of storage agencies

4.18 – 4.24. The Commission is aware that the storage of dried grapes is in some cases carried out by agencies which

often fulfil all three functions: producer, storage agency, processor.

Community rules [in particular Regulation (EEC) No 626/85] require either the storage agency or the Member State to observe certain minimum conditions regarding the purchase, management and sale of dried grapes in storage. When reviewing these rules, the Commission will not fail to take into account the observations made, especially by providing for stricter discipline in approving storage agencies.

4.22. At the two storage agencies for dried grapes and figs in Greece visited by Commission auditors in 1988 it was noted that losses were recorded following stocktakings but that these had been within the 1 % limit.

Sales for animal feed

4.25 – 4.26. The Commission does not consider it advisable to lay down an exhaustive list of denaturing methods. Sale by invitation to tender for animal feed [Regulation (EEC) No 3205/85] should be done in such a way that the denatured product can no longer find its way back into normal distribution channels for human consumption. It is in the interests of the producer Member State to ensure that denaturing takes place under the best conditions, since dried grapes for human consumption are for the most part consumed outside Greece.

It is useful to point out that stricter national standards have recently been submitted to the Commission. The actual impact of these standards on the tendering system has already become apparent, since the notice of invitation to tender states that the tenderer must furnish detailed documentary evidence proving that his profession is linked to the specific use of the product.

Citrus fruit

4.28. The Court's observation on this point, when taken in conjunction with its comment concerning point 4.9, clearly shows how difficult it is to reconcile the physical presence of inspectors with the processing itself. In its proposal to the Council, the Commission proposed that the withdrawal price be fixed solely for Class II products

presented loose, irrespective of variety and size. In addition a single minimum price has been fixed for all varieties delivered for processing (see the replies to points 6.4 and 6.13). Such a proposal should facilitate control.

comparison with normal market prices, for producers unable to sell their products for human consumption.

5. MARKET MANAGEMENT — FRESH FRUIT WITHDRAWALS

Priority between withdrawals and processing

Control of the basis for commencement of withdrawals

5.11 – 5.12. Among the related measures accompanying the 1989/1990 price proposals, the Commission has proposed that the minimum price to industry should be fixed at the same level as the withdrawal price for all the varieties of orange which may at present be delivered for processing into juice. To this end, provision is made for a single withdrawal price (see reply to point 4.28).

5.1. See replies to points 3.12 – 3.13.

End-use of withdrawn produce

Exclusion of mandarins from processing aid

Processing

5.6. The measures concerning stabilizers adopted by the Council in recent years or currently before that institution in the context of the price proposals are designed both to reduce the quantities of fresh products for which no outlet can be found and to encourage recourse to processing.

5.14. Also among the related measures accompanying the 1989/1990 price proposals, the Commission has proposed that mandarins, satsumas and clementines be eligible for a system of aid for processing into juice for a period of three years.

The Commission's new proposals seek to provide incentives to use quantities of fresh produce for which no outlet can be found by encouraging these products to be sent for processing without first being withdrawn from the market, since the mechanism previously introduced for this purpose had no effect. See also the reply to point 6.12.

Reconversion plan

Destruction

5.8. It should be pointed out that the withdrawal price and financial compensation systems are intended to remove part of the produce from the marketing channels, and thereby prevent any drastic drop in prices caused by a glut, while guaranteeing compensation, at a low level in

5.15 – 5.17. The Commission is aware of the slowness with which Regulation (EEC) No 2511/69 has been implemented in Italy, particularly as regards the varietal conversion of mandarins, the results of which, after a number of years, are very limited. However, the situation seems to have improved in recent years and in Corsica it appears that the programme is being implemented at a satisfactory rate. The Commission will take account of the Court's recommendation on the need for a qualitative assessment of reconversion.

Quality control

5.18. The Commission implemented Regulation (EEC) No 1319/85 at the beginning of 1988. The 1987 budgetary allocation for that purpose was indeed extremely limited. However, these appropriations have since become progressively bigger and reached 125 000 ECU for 1988 and 400 000 ECU for 1989. Since January 1988, eight missions have been carried out in different Member States. However, the expected results regarding the recruitment of inspectors have not been attained, because the Commission has had to give priority to other tasks.

The Commission is fully aware of the increasingly important role which must be played by Community controls in order to ensure that Community rules are applied in a uniform manner in all Member States and that infringements are detected.

6. MARKET MANAGEMENT — PROCESSED FRUIT

*Fixing the aid**Fruit in syrup and dried fruit**Prices of competing products*

6.3 – 6.4. Regarding the third country prices which are taken into account for the purpose of calculating Community production aid for certain processed fruit and vegetables, Council Regulation (EEC) No 1277/84 specifies that those prices are to be determined from free-at-frontier prices on importation into the Community. It should be remembered that, as regards the third country prices, the level of the aid calculated each year is based on the difference between the free-at-frontier prices recorded during two different periods. In addition, if the third country price inclusive of customs duties were to be taken as a basis, the prices of Community products would have to be taken into consideration at the importer-wholesale stage (on the wholesale market) rather than at the ex-factory stage.

Lemons

6.5. In view of the new situation regarding lemons (see reply to points 6.14 – 6.15) the Commission will assess whether it is necessary to review certain elements in the calculation of the aid.

Oranges

6.6 – 6.7. The Commission is aware of the need to safeguard the competitiveness of the processing industry. In its price proposals, it therefore points out that the problems raised by fluctuations, often considerable, in the prices of products imported from non-Community countries must be looked at. Until that happens, the mechanism used to calculate the financial compensation paid to processors can continue to function under current conditions.

Since the system was introduced, the quantity of products sent for processing has increased regularly, except in 1987/1988, when the extremely poor harvest made processing and withdrawal almost impossible.

Monthly increases in aid for dried grapes

6.8 – 6.10. The price fixed in advance for the grapes from the previous marketing year is set in such a way that sales of the new crop are not affected.

Sales at the end of the marketing year are subject to monthly increases, but there are no other available grapes for the processor to use.

Therefore, the price fixed in advance must take account of the deterioration in the quality of grapes over time, and the need to sell them as quickly as possible to ensure that disposal of the new crop is not disturbed.

Nevertheless, the Commission will study the Court's comments to determine whether the difference between the price of grapes bought at the end of the marketing year and the price fixed in advance should be reduced.

Conclusions on aid calculation

6.11. See the replies to points 6.6—6.7.

Orange processing

6.12—6.13. The Commission takes the view that the price proposals and related measures from 1989/1990 will facilitate the disposal of surplus citrus fruit for processing into juice.

The measures in question include:

- fixing the minimum price to industry at the same level as the withdrawal price for all varieties of orange which may at present be delivered for processing into juice;
- fixing a withdrawal price for oranges, mandarins, clementines and satsumas solely for Class II products presented loose, irrespective of variety and size;
- granting aid for processing into juice, in respect of mandarins, clementines and satsumas, for a period of three years.

*Lemon processing**Closed market in Italy*

6.14—6.15. Italy has recently relaxed its ban on imports. There is therefore no reason to retain the limit imposed on the amount of aid granted to Italian processors (only 40 % of exported juice is eligible). The Commission has proposed that the Council delete those provisions which currently limit processing aid for lemons.

Quality criteria

6.16. The Commission has taken care to specify the quality of products that can be delivered for processing. To do this it took the criteria that had been laid down for marketing those products fresh. Tolerances were fixed for Class III which correspond to those also permitted for Classes I and II in Regulation (EEC) No 379/71, which lays down quality standards for citrus fruit similar to those laid down by the competent international bodies (OECD and ECE).

*Dried grapes**Guarantee threshold and product quality*

6.17—6.20. As stated in the explanatory memorandum to the 1989/1990 price proposals [vol. I — COM(89) 40 final], the Commission will submit a report to the Council at the earliest opportunity together with proposals for regulations which should deal with most of the Court's observations, namely:

- a drop in the guarantee threshold for currants;
- improvements in quality;
- the possibility of increasing the percentage withheld from processing according to the size of the crop;
- a variable monthly scale for the payments to be made to producers, depending on the period when the grapes were purchased.

7. SUMMARY — CONCLUSIONS

Regarding the specific comments of the Court of Auditors, the Commission would refer to its replies to the different points to which the Court also refers.

The Commission has examined the difficulties pointed out by the Court of Auditors, with a view to correcting certain of their effects. Proposals have been transmitted to the Council in this connection.

There has been an in-depth investigation into the possibilities of introducing rules for producers' organizations, which would be designed in particular to improve their scope for action, in accordance with the objectives of the Regulation.

The possible end uses for products withdrawn from the market have been extended constantly since the market organization was set up. However, there is a limit to how far they can be extended and experience has shown that the uses for withdrawn fruit and vegetables are limited by the very nature of the products. The aim of the measures concerning stabilizers adopted by the Council in recent years or currently at the proposal stage is both to reduce the quantities for which there is no outlet on the market for fresh products and, for the remaining quantities, to encourage recourse to processing without prior withdrawal. The following measures have therefore been proposed in the 1989/1990 price proposals and related measures:

- the minimum price to industry should be fixed at the same level as the withdrawal price for all varieties of oranges which may at present be delivered for processing into juice;
- the withdrawal price for oranges, mandarins, clementines and satsumas should be fixed solely for Class II products presented loose, irrespective of variety and size;

- for a period of three years, mandarins, satsumas and clementines should be eligible for aid for processing into juice;
- the full amount of processing aid for lemons should be granted.

Since Italy has liberalized its imports of lemon juice, the new situation might prompt the Commission to re-examine certain elements involved in calculation of the aid. After analysing the situation with the supplier countries in question, the Commission will also study the problems which arise when calculating processing aid for oranges as a result of the fluctuations, sometimes considerable, in the price of products imported from non-Community countries.

The Commission sets great store by the growing importance of Community controls. Within the framework of Regulation (EEC) No 1319/85, eight inspection missions have been carried out in different Member States since January 1988 (see the reply to point 5.18).

As regards the arrangements for dried grapes, a report accompanied by proposals for regulations will be sent to the Council at the earliest opportunity, and will certainly take account of the observations made by the Court of Auditors. In any case, all the necessary steps will be taken to ensure that the measures envisaged can be implemented from the 1989/1990 marketing year.

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