

# COMMISSION OF THE EUROPEAN COMMUNITIES

COM(93)109 final

Brussels, 9 March 1993

## **Report on the situation on the market for milk and milk products**

(presented by the Commission)

Amended proposal for a

COUNCIL REGULATION (EEC)

establishing an additional levy in the milk and milk products sector

(presented by the Commission pursuant to Article 149(3)  
of the EEC-Treaty)

Proposal for a

COUNCIL REGULATION (EEC)

amending Regulation (EEC) No 2072/92 fixing the target price  
for milk and the intervention prices for butter, skimmed-milk powder  
and Grana Padano and Parmigiano Reggiano cheeses for two annual periods  
from 1 July 1993 to 30 June 1995

(presented by the Commission)

Amended proposal for a

COUNCIL REGULATION (EEC)

fixing the threshold prices for certain milk products  
for the 1993/94 milk year

(presented by the Commission pursuant to Article 149(3)  
of the EEC-Treaty)

**REPORT FROM THE COMMISSION TO THE COUNCIL ON**

**THE PROGRESS MADE BY GREECE, SPAIN AND ITALY**

**IN THE EFFECTIVE APPLICATION OF**

**THE MILK QUOTA SCHEME**

**AT 5 MARCH 1993**

**Report on the situation on  
the market for milk and milk  
products**

## Introduction

In its 1991/92 price proposals presented to the Council in March 1991<sup>(1)</sup>, the Commission drew attention to the worsening situation on the market for milk and milk products, where intervention stocks were building up fast despite stable or practically stable milk production.

Given the signs of stabilization in overall Community consumption and the lasting reductions in export possibilities on account of the political and economic changes in the former USSR and central Europe and the uncertainty following the Gulf War on the traditional, important markets in the Middle East, the Commission considered that a 5% reduction in the guaranteed total quantities was necessary to establish better balance on the market for dairy products. Out of a concern to lessen the impact of such a reduction on the market for beef and veal, the Commission proposed, and the Council approved, an initial reduction not exceeding 2% in quantities not subject to the additional levy for 1991/92.

The Commission Communication to the Council and the European Parliament entitled "The Development and Future of the Common Agricultural Policy"<sup>(2)</sup> endorsed this analysis of the situation on the market for milk products. On that basis the Commission considered a further reduction in the guaranteed total quantities necessary and proposed to the Council that the additional levy arrangements be extended (and simplified) and a reduction of 3% be made in the quantities in steps of 1% over three twelve-month periods starting from 1 April 1992 at the same time as the staggered reduction in the institutional prices for milk<sup>(3)</sup>.

On 21 May 1992, as part of the reform of the common agricultural policy, the Council adopted the Commission proposals on milk and milk products<sup>(3)</sup> subject to a certain number of amendments<sup>(4)</sup>. The Council decided that there would be no 1% reduction in quantities for the 1992/93 period, thereby confirming the Member States' guaranteed total quantities which it had fixed for that period on 31 March 1992, subject to a final decision in the context of the reform of the CAP<sup>(5)</sup>. It further decided that before the beginning of the 1993/94 and 1994/95 periods of the additional levy scheme the Commission would present reports to the Council on the market situation together, where appropriate, with proposals in order to permit the Council to review decisions taken for those two periods. This report has been drafted in response to that request.

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- (1) COM (91) 72 final of 1 March 1991.
  - (2) COM (91) 258 final of 22 July 1991.
  - (3) COM (91) 409 final of 31 October 1991.
  - (4) COUNCIL DOCUMENT No 6953/92 of 2 June 1992.
  - (5) Regulation (EEC) No 816/92, published in OJ No L 86, 1.4.1992, p. 83.

1. Trends in the Community market

The 2% reduction in the guaranteed total quantities for the 1991/92 twelve-month period, combined with the Community programme for the restructuring of dairy production, the effects of which extended until the end of 1992, together with the marked drop in production in the new Länder, had a significant impact on milk collection in 1992. Output of intervention products, i.e. butter and skimmed-milk powder, fell as a result by 7% and 20% respectively compared with 1991. Quantities bought into intervention fell accordingly and the market seemed in better balance in 1992.

Intervention on the Community market (tonnes)

	1990	1991	1992
<u>BUTTER</u>			
Stocks at 1 January	20 300	250 800	260 800
Buying-in	250 300	174 000	48 800
Sales	19 800	163 900	136 400
Stocks at 31 December	250 800	260 800	172 700
<u>SKIMMED-MILK POWDER</u>			
Stocks at 1 January	4 811	333 142	414 383
Buying-in	337 211	198 570	-
Sales	8 880	117 330	367 269
Stocks at 31 December	333 142	414 383	47 114

However, these figures must be seen in relation to those for subsidized consumption, which accounts for a significant proportion of Community production.

Subsidized consumption on the Community market (tonnes)

	1991	1992	Percentage change
<b>BUTTER</b> (Milk fat in butter equivalent)			
Buying-in (sales at reduced prices)	93 800	96 200	+ 2,6%
Products on market (subsidized)	<u>344 300</u>	<u>343 900</u>	- 0,1%
TOTAL	438 100	440 100	+ 0,5%
Production	1 800 000	1 660 000	- 7,8%
Subsidized consumption as a percentage of production	24,3%	26,5%	+ 9,1%
<b>SKIMMED-MILK POWDER</b> (skimmed milk in skimmed-milk powder equivalent)			
Animal feed	955 000	860 000	- 9%
Casein	<u>350 000</u>	<u>458 000</u>	+ 31%
TOTAL (SMP equivalent)	1 305 000	1 318 000	+ 1%
Production of skimmed-milk powder	1 510 000	1 200 000	- 20%
Casein (SMP equivalent)	<u>350 000</u>	<u>458 000</u>	+ 31%
TOTAL (SMP equivalent)	1 860 000	1 658 000	- 11%
Subsidized consumption as a percentage of production	70%	79,5%	+ 13%

Under these circumstances, the level of intervention stocks and accordingly the market situation as a whole are to a very large extent determined by disposal measures, i.e. the budget funds available to finance them, and by exports, which are also subsidized and fluctuate more widely (see Annex I).

Community exports (tonnes)

Exports	1991	1992	Percentage change
Butter and butteroil	321 000 <sup>a)</sup>	250 000 <sup>b)</sup>	- 22%
Skimmed-milk powder	253 000	389 000	+ 54%

a) incl. special exports to the former USSR, Albania, Romania and Bulgaria: 107 000 and food aid: 12 600 t

b) incl. special exports to former USSR and Albania: 40 000 t and food aid: 5 500 t

2. Trends on the world market

The Community has a commanding position on the world market, both in terms of total production and the main products and in terms of share of the market, which is about 50% as a result of exports amounting in both 1991 and 1992 to approximately 13 million tonnes milk equivalent (see also tables in Annex II).

Community share of the world market

Year	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992*
Milk equivalent (million tonnes)	10	12.8	12.2	11.4	13.8	16.5	14.2	12.4	12.8	13
8	44	48	45	41	48	54	51	49	49,5	50

\* Preliminary

The reduction in Community stocks has not, however, affected the world market, where prices have varied little.

International prices (US dollars fob)

Minimum GATT prices	Butter	Butteroil	Cheese	Skimmed-milk powder
	1 350	1 625	1 500	1 200
1990 1st 6 months	1 350 - 1 550	1 600 - 1 900	1 700 - 2 000	1 200 - 1 700
2nd 6 months	1 350 - 1 500	1 600 - 1 800	1 550 - 2 000	1 300 - 1 500
1991 1st 6 months	1 350 - 1 400	1 600 - 1 800	1 600 - 1 900	1 200 - 1 400
2nd 6 months	1 450 - 1 850	1 675 - 2 250	1 600 - 2 100	1 450 - 1 800
1992 1st 6 months	1 350 - 1 600	1 625 - 1 950	1 750 - 2 100	1 550 - 1 900
2nd 6 months	1 350 - 1 500	1 625 - 1 800	1 750 - 2 100	1 550 - 1 900

This stability in prices for products apart from skimmed-milk powder reflects the situation on the world market, which continues to be dominated by the consequences of the political changes in eastern Europe and the Gulf War.

The market outlets which once existed in the former USSR and certain central European countries may be considered lost for years to come. The economic changes which have occurred in those countries have drastically reduced their consumption capacity. After the current restructuring period, those countries will probably reappear on the world market but as exporters, given their agricultural potential.

In the Middle East, export outlets cut off by the Gulf War remain uncertain. More generally, currency fluctuations and the lack of a lasting solution to the indebtedness of the developing countries may jeopardize any serious hope of consolidation of the market.

In addition the upward trend in production, which is being confirmed in New Zealand, in spite of the fact that producers there receive no price support, and in Australia, as well as in the United States despite the fall in support prices, against a background of static or even falling consumption of milk fat in particular, is threatening the stability of the world market so that it is likely to remain very precarious given the prospect of new surpluses in the near future.

Lastly, it would be unwise to ignore the programme to win new markets currently being financed by the United States (DEIP - Dairy Export Incentive Programme), which is specifically targeted at the Community's traditional markets.

### 3. Control of production and balance on the market

Despite the difficulties connected with any quota system, the production control scheme has given ample proof of its effectiveness. Since its introduction, it has allowed progressive savings to be made through the fact that it has not been necessary to dispose of 1.4 million tonnes of butter and 2.8 million tonnes of skimmed-milk powder at reduced prices.

Application of the additional levy arrangements

EC (tonnes)	Guaranteed total quantity	Quantity suspended	Allocation from Community Reserve	Quantity available	Quantity delivered	Gross difference	Correction for milk fat	Interchange direct sales	Net difference
	a	b	c	d	e	f	g	h	i
1984/85(1)	99 524 000	-	0	99 917 000	99 293 261	-623 739	142	55 115	-568 482
1985/86(1)	98 078 574	-	0	98 471 574	100 172 744	1 701 170	83	-57 131	1 644 122
1986/87(2)	103 988 574	-	0	104 381 574	105 073 297	691 723	118 735	-8 519	801 939
1987/88(2)	102 096 143	3 778 103	0	98 761 040	99 173 711	412 671	435 882	-265 031	583 522
1988/89(2)	101 059 108	5 396 485	0	96 105 623	97 619 776	1 514 153	408 506	-332 123	1 590 536
1989/90(2)	100 209 222	4 517 603	0	502 233	1 039 886	97 676 738	97 947 296	270 558	776 102
1990/91(2)	100 559 222	4 679 486	0	502 233	1 039 886	97 864 855	96 781 993	-1 082 862	1 372 861
1991/92(3)	106 657 695	4 985 666	0	600 000	1 039 886	103 754 915	103 921 500	166 585	n.a.
1992/93(3)	101 672 000	-	0	600 000	1 039 886	103 754 915	n.a.	n.a.	n.a.

(a) Article 50(3) of Regulation (EEC) No 804/68.  
 (b) Regulation (EEC) No 775/87.  
 (c), (d) and (e) Article 1 of Regulation (EEC) No 1546/88.  
 (g) Member States' declarations to the Commission, estimates or provisional declarations in the case of certain Member States.  
 (i) Article 12 of Regulation (EEC) No 1546/88.  
 (j) Article 6a of Regulation (EEC) No 857/84.  
 (1) 10 Member States.  
 (2) 11 Member States.  
 (3) 12 Member States.  
 n.a. not available  
 (P) provisional



Application of additional levy arrangements

	1991/92										1992/93									
	Guaranteed : total : quantity :	Quantity : suspended :	SLOM (1) : from : Community :	Allocation : from : Community :	SLOM (1) : total : quantity :	Total : quantity : available :	Deliveries : (p) :	Adjustment : for milk : fat :	Interchange : (3) : fat :	Difference : after : adjustment :	Guaranteed : total : quantity :	Allocation : from : Community :	SLOM (1) : total : quantity :	Total : quantity : available :						
1	2	3	4	5	6-2-3+4+5	7	8	9	10-7+8-6-4	11	12	13	14-11-12+13							
EUR 12	106 657.7	4 985.7	1 482.9	600.0	103 754.9	103 921.5				101 672.0	1 482.9	600.0	103 754.9							
B	3 025.5	344.5	32.1	6.6	2 919.7	2 994.9	130.0	180.0	25.2	2 801.0	32.1	6.6	2 919.7							
DK	4 589.1	219.7	48.8	9.6	4 427.9	4 424.7	10.2	0.0	7.1	4 369.4	48.8	9.6	4 427.8							
D	28 514.4	1 360.2	234.2	181.0	27 549.5	26 171.2	n.d.	n.d.	n.d.	27 154.2	234.2	181.0	27 549.4							
EL	544.8	24.2	5.4	-	526.0	578.8	n.d.	n.d.		520.6	5.4	-	526.0							
E	4 571.0	209.2	96.5	-	4 458.3	5 931.0	n.d.	n.d.		4 361.8	96.5	-	4 458.3							
F	24 196.0	1 153.6	356.3	64.0	23 362.8	23 389.6	293.5	143.3	177.0	23 042.4	356.3	64.0	23 362.7							
FINL	4 963.2	237.6	355.8	118.0	5 199.4	5 201.6	0.0	6.3	-4.1	4 725.6	355.8	118.0	5 199.4							
I	8 620.1	395.9	88.0	-	8 312.4	8 862.9	n.d.	n.d.		8 234.2	88.0	-	8 312.2							
L	249.1	11.9	27.7	1.7	266.5	253.3	12.0	0.2	-0.4	237.2	27.7	1.7	266.6							
NL (4)	11 248.3	539.1	119.8	47.9	10 876.9	10 534.5	381.0	2.4	36.2	10 709.2	119.8	47.9	10 876.9							
P	1 743.4	-	-	-	1 743.4	1 564.0	n.d.	n.d.		1 743.4	-	-	1 743.4							
UK	14 392.8	689.8	218.3	191.2	14 112.5	13 995.0	171.0	38	15.5	13 073.0	218.3	191.2	14 112.5							

Source : Member State's declarations

(1) SLOM : quantities allocated pursuant to Article 3a of Regulation (EEC) No 857/84.

(2) Adjustments pursuant to Article 12 of Regulation (EEC) No 1546/88.

(3) Interchange pursuant to Article 6a of Regulation (EEC) No 857/84.

(4) 52 weeks.

(a) Eurostat - Cronos. These statistical data do not necessarily correspond to deliveries recorded under the arrangements.

(p) Provisional

o Preliminary

While the scheme has definitely enabled deliveries to be kept down, even below the levels set for most Member States, the tables set out earlier also point to a growing tendency for those quantities to be exceeded if the fat content of milk delivered is taken into account. This constant rise in the fat content of milk delivered seriously endangers the balance of the market.

While the trend in consumption is stable in the Community and generally in all developed countries, the trends by product show significant variations<sup>(6)</sup>; demand for partly skimmed milk, fresh (reduced-fat) milk products and certain cheeses is rising by 1% to 2% per year while that for whole milk, hard cheese and particularly butter is falling constantly by 2% to 2.5% per year. The result is an overall decline in milk fat consumption that is growing steeper every year and persistent difficulties on the market for butter, clearly reflected in the market price, which is 91% of the intervention price on average and has stayed between 89% and 94% of the intervention price for the last three years (see Annex).

This downward trend in consumption of butter and milk fat, which is almost certainly in part a response to dietary concerns, is also the result of competition from butter imitation and replacement products. Products competing with butter are now in a dominant position on the market for yellow fats<sup>(6)</sup>.

In the face of a similar situation, Canada reduced its quota for manufactured milk by 3% for the 1992/93 period. The United States, which does not have a comparable system, reduced the support price for butter twice in 1992 and plans a further reduction in 1993, thus considerably altering the solid-non-fat ratio contribution to the value of milk, which is USD 1 725/tonne or ECU 1 215/tonne for butter and USD 2 145/tonne or ECU 1 511/tonne for skimmed-milk powder.

Such a reduction in prices for butter, which may help effectively to slow down the development of imitation and replacement products, has the definite advantage of encouraging consumption. In this respect, it should be remembered (to emphasize the quantities involved) that approximately one third of milk collected is still processed into butter and only 60% of that butter is disposed of at the market price.

Conversely, it may be feared that the - in some cases substantial - devaluation of the green rates of currencies which have recently been readjusted within the EMS may result in a marked increase in prices for butter and that this may be damaging to consumption in those Member States.

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(6) Cf. Report on developments on the market in milk products and competing products - Fourth report from the Commission to the Council - COM(93) 34 final of 5 February 1993.

## Conclusions

On 21 May 1992 the Council decided on a reduction over two years of 2% in the guaranteed total quantities and 5% in the intervention price for butter. Since then the situation on the market, which appears on analysis to be still exposed to the same pressures as those identified at the time, does seem to be in better equilibrium than might have been feared in March 1992.

This glimmer of improvement in the market may be put down partly to the trend in production in the new Länder, which is now 25% to 30% below the reference quantities available for the region. In the short term, a better adjustment hardly seems possible given the restructuring of holdings currently under way.

In this connection, the Council must also take into account the efforts of Spain and Italy over the last year to reduce their milk deliveries to within the reference quantities available to them. Given the programme to encourage the discontinuation of milk production implemented in 1992/93 by Spain, a reduction of approximately 600 000 tonnes is expected in deliveries in 1993/94. Similarly, the Italian authorities anticipate a fall in production of around 300 000 tonnes in 1992/93. Overall, actual quantities of milk collected in the Community in 1993/94 should not exceed 103 million tonnes, a figure which must be compared with the guaranteed total quantity available for 1992/93 (103 755 000 tonnes).

Seen from the demand side, there is a persisting decline in consumption of butter and milk fats and a move towards imitation and replacement products assisted by the price edge enjoyed by the latter.

To sum up, the Commission considers that the situation on the market for milk fat gives cause for much greater concern than the situation for milk protein. Accordingly, before deciding on a further reduction in the guaranteed quantities, a determined effort should be made to deal directly with the imbalance on the market for milk fat. The Commission therefore proposes that the 5% reduction in the intervention price for butter decided by the Council in May 1992 should apply in full from this year and not be staggered over two years. At the same time as this reduction, which only covers milk processed into butter i.e. less than a third of Community deliveries, it has been decided, as part of the CAP reform package, to abolish the co-responsibility levy. The Commission has proposed that this take effect on 1 April 1993. The impact on incomes will therefore be slight.

Consequently, the 1% reduction in guaranteed quantities decided for 1993/94 could be deferred and its implementation reconsidered at the same time as the 1% reduction decided for 1994/95, in the light of a new market analysis to be presented before the end of 1993/94.

ANNEX 1

Supply balance for butter (1) ('000 t)

	<u>1990</u>	<u>1991</u>	<u>1992</u>
- <u>Stocks</u> at 1 January	<u>124</u>	<u>335</u>	<u>302</u>
- Public -	104	251	261
- Private -	20	84	41
- <u>Production</u>	1796	1800	1660
- <u>Import</u>	88	68	60
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<u>Available</u>	2008	2203	2022
- <u>Consumption</u>	<u>1455</u>	<u>1580</u>	<u>1522</u>
- normal market price -	1089	1148	1097
- special measures -	366	432	435
- <u>Export</u>	218	321	250
- <u>Stocks</u> per 31 December	<u>335</u>	<u>302</u>	<u>240</u>
- Public -	251	261	172
- Private -	84	41	68

(1) Including former GDR as from 1991.

The trend in internal disposal measures and exports and a comparison with butter production is given below:

	(mid-year)		
	<u>1990</u>	<u>1991</u>	<u>1992</u>
1. <u>Internal disposal</u> ('000 t)	366	432	435
of which			
- Pastry & ice-cream	292	352	362
- Non-profitmaking organizations	37	37	36
- Cooking butter	16	19	19
- Other	21	24	18
2. <u>Exports</u> ('000 t)	218	321	250
of which			
- Normal	202	201	205
- Special price	5	107	40
- Food aid	11	13	5
3. <u>TOTAL</u>	584	759	691
- as a percentage of production	33	42	41

Subsidized butter for the internal market plus total exports exceeded 41% of butter production both in 1991 and 1992 while it was only 33% in 1990.

SUPPLY BALANCE FOR SKIMMED-MILK POWDER ('000 t)

	1990(*)	1991	1992
(1) Public stocks at 1 January	5	333	414
(2) Quantities available	1672	1528	1205
of which:			
- production	1665	1510	1200
- imports	7	18	5
(3) EC consumption	1067	1186	1140
of which:			
- at full price	300	330	335
- feed for calves	767	856	805
(4) Exports	329	253	389
of which : -			
- exported on market terms	261	192	295
- food aid	68	61	94(**)
(5) Balance = (2) - (3) - (4)	276	89	-324
(6) Public stocks at 31 December	333	414	47
(7) skimmed milk used in manufacture of casein (SMP equivalent)	334	350	458

(\*) excluding the former GDR.

(\*\*) of which 44 000 tonnes covers emergency supplies to eastern Europe.

SUBSIDIZED DISPOSAL OF SKIMMED MILK ('000 t)

	1990	1991	1992
1. COMMUNITY MARKET	1166	1288	1317
of which			
- animal feed	832	939	859
- casein	334	349	458
2. EXPORTS	329	253	389
3. TOTAL	1495	1541	1706
4. AS A PERCENTAGE OF PRODUCTION (powder + casein)	75	83	92

A N N E X I I

Milk collection (million tonnes)	1990	1991	1992
EC	106.0	100.7	100.2
CIS + Baltic States <sup>(1)</sup>	108.2	101.2	87.3
USA	66.8	67.4	67.8
New Zealand	7.3	8.1	8.5
Australia	6.4	6.6	6.7

<sup>(1)</sup> Estimated production.

Butter production (tonnes)	1990	1991	1992 (p)
EC	2 013 000	1 800 000	1 660 000
CIS	1 740 000	1 504 000	1 420 000
USA	591 000	606 000	615 000
New Zealand	276 000	269 000	286 000
Australia	106 000	107 000	111 000

(p) Provisional figures.

Production of skimmed-milk powder (tonnes)	1990	1991	1992 (p)
EC	1 665 000	1 510 000	1 200 000
USA	399 000	398 000	390 000
CIS	300 000	274 000	263 000
New Zealand	172 000	162 000	155 000
Australia	127 000	135 000	146 000

(p) Provisional figures.

Cheese production (tonnes)	1990	1991	1992 (p)
EC	5 150 000	5 170 000	5 270 000
USA	2 749 000	2 763 000	2 920 000
CIS	886 000	780 000	700 000
Australia	175 000	176 000	197 000
New Zealand	122 000	125 000	139 000

(p) Provisional figures.

Share of market in milk equivalent	1990		1991	
	million tonnes	%	million tonnes	%
EC	12.5	49	13.0	49.5
New Zealand	4.3	17	5.0	19.3
Australia	1.8	7.3	2.3	8.9
USA	0.3	1.2	0.7	2.7

Amended proposal for a  
Council Regulation (EEC) No            /93  
of  
establishing an additional levy in the milk and milk products sector

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Amended proposal for a  
COUNCIL REGULATION (EEC) No            /93  
of  
establishing an additional levy in the milk and milk products sector

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The sixth recital is deleted and replaced by the following three recitals:

" Whereas, under the reform of the common agricultural policy, the Council has decided to reduce the guaranteed total quantities by a further 2% over two twelve-month periods without prejudice to any review in the light of the market situation and the special conditions governing the implementation of the arrangements in certain Member States;

Whereas an analysis of the market shows that the situation regarding milk fat gives cause for much greater concern than that for milk protein; whereas an attempt should therefore be made first of all to remedy the imbalance on the market for milk fat before applying the 1% reduction to the guaranteed total quantities decided in principle for the 1993/94 period; whereas that 1% reduction should accordingly be deferred and its entry into force should be reconsidered, in the light of a new market analysis, at the same time as that decided for 1994/95;

Whereas, upon examination of the particular situations in Spain, Italy and Greece, it appears advisable on the basis of the current data to increase the guaranteed total quantity for Spain for 1993/94 at this juncture and to defer by at most three months the decisions regarding Italy and Greece; "

Article 3 is replaced by the following:

" Article 3

1. The sum of the individual reference quantities of the same type may not exceed the corresponding guaranteed total quantities in each Member State.



2. The guaranteed total quantities shall be as set out below, without prejudice to any revision in the light of the overall market situation and the particular situation in certain Member States:

Member State	Deliveries (tonnes)	Direct Sales (t)
Belgium	2 919 720	373 193
Denmark	4 427 830	951
Germany (1)	27 549 481	150 038
Greece	525 985	4 528
Spain	5 200 000	366 950
France	23 362 797	732 824
Ireland	5 199 358	15 210
Italy	8 312 190	717 870
Luxembourg	266 499	951
Netherlands	10 906 664	102 307
Portugal	1 743 420	118 580
United Kingdom	14 112 504	392 868

- (1) Of which 6 157 620 tonnes covers deliveries to purchasers established in the territory of the new Länder and 58 801 tonnes covers direct sales in the new Länder.

The total quantities given for Spain are hereby fixed for the 1993/94 period.

3. Where the Council decides to adjust the abovementioned total quantities to the prevailing market situation, the adjustments shall be expressed as a percentage of the total quantities for the preceding period. "

Proposal for a

COUNCIL REGULATION (EEC) No        /92  
of

amending Regulation (EEC) No 2072/92 fixing the target price  
for milk and the intervention prices for butter, skimmed-milk powder  
and Grana Padano and Parmigiano Reggiano cheeses for two annual periods  
from 1 July 1993 to 30 June 1995

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THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community,  
and in particular Article 43 thereof,

Having regard to the Act of Accession of Spain and Portugal, and in  
particular Article 234(3) thereof,

Having regard to the proposal from the Commission<sup>1</sup>,

Having regard to the opinion of the European Parliament<sup>2</sup>,

Having regard to the opinion of the Economic and Social Committee<sup>3</sup>,

Whereas, given the pressing need to improve the balance between supply and  
demand, the Council has decided to extend as from 1 April 1993 the  
additional levy arrangements introduced for milk and milk products and to  
reduce the guaranteed total quantities fixed under those arrangements,  
without prejudice to a review in the light of the market situation;

Whereas an analysis of the market shows that the situation regarding milk  
fat gives cause for much greater concern than that for milk protein;  
whereas, as a consequence, before applying the 1% reduction in the  
guaranteed total quantities decided for the 1993/94 period, an attempt  
should firstly be made immediately to remedy the imbalance on the market for  
milk fat and to bring forward to 1 July 1993 the entry into force of the  
reduction in the target price and the 5% reduction in the intervention price  
for butter fixed by Council Regulation (EEC) No 2072/92<sup>4</sup>,

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1 OJ No

2 OJ No

3 OJ No

4 OJ No L 215, 30.7.1992, p. 65.

HAS ADOPTED THIS REGULATION :

Article 1

Article 2(1) of Regulation (EEC) No 2072/92 is hereby replaced by the following:

" (1) For the period from 1 July 1993 to 30 June 1994

(ECU/100 kg)

	Community except Portugal	Portugal
(a) Target price for milk	26,13	26,13
(b) Intervention price for :		
- butter	278,14	278,14
- skimmed-milk powder	172,43	195,48
- Grana Padano cheese:		
- between 30 and 60 days old	369,84	-
- at least six months old	460,18	-
- Parmigiano Reggiano cheese, at least six months old	509,04	-

Article 2

This Regulation shall enter into force on the third day following its publication in the Official Journal of the European Communities.

This Regulation shall be binding in its entirety  
and directly applicable in all Member States.

Done at Brussels,

For the Council

Amended proposal for a

COUNCIL REGULATION (EEC) No /93  
of

fixing the threshold prices for certain milk products  
for the 1993/94 milk year

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Amended proposal for a  
COUNCIL REGULATION (EEC) No        /93  
of  
fixing the threshold prices for certain milk products  
for the 1993/94 milk year

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In Article 1(1), the table setting out the pilot products and the corresponding prices is replaced by the following:

Pilot product of group of products	ECU/100 kg
1	56,86
2	193,83
3	263,32
4	98,75
5	130,52
6	311,95
7	372,24
8	312,24
9	589,52
10	336,75
11	310,80
12	94,26

## FINANCIAL EVALUATION

### 1. INTRODUCTION

The proposals include the following measures :

- there will be a deferral of the 1% reduction in quotas already decided in principle for 1993/94. It is assumed that this reduction will instead be applied as from the beginning of 1994/95, at the same time as the 1% reduction already decided for that year;
- the quota for deliveries for Spain for 1993/94 will be increased by 650 000 tonnes. It is also envisaged that before 1.7.1993, a decision will be taken on an increase in the quantities for 1993/94 for Greece and Italy. Subject to certain conditions being fulfilled, it is assumed that there will be increases respectively of 100 000 tonnes and 900 000 tonnes;
- the levels of the target price for milk and of the intervention price for butter, currently envisaged to apply as from 1.7.1994, will instead apply as from 1.7.1993. This leads to total reductions, as from 1.7.1993 of 5% for the intervention price for butter and of 2,5% for the target price. There are also corresponding adaptations of threshold prices.

The 1993 budget and the financial assessment of the Council's decisions of May 1992 concerning the reform were drawn up on the assumption that the 1% quota reduction would be applied as from 1.4.1993, with a further 1% reduction being applicable as from 1.4.1994. It was similarly assumed that the butter intervention price would be reduced by 2.5% as from 1.7.1993 and by a further 2.5% as from 1.7.1994. Against this background and therefore in relation to the evaluation made at the time of the reform decisions, the financial impact of the proposed measures is assessed below.

### 2. FINANCIAL ASSESSMENT

- a) Deferral of the 1% decrease in quotas for 1993/94 to 1994/95 and increase in quota for Greece of 100 000 tonnes

(i) Impact on milk production

In relation to the level foreseen at the time of the reform decisions, the delivery quota for 1993/94 is increased by 1.2 mio tonnes. This should lead to a corresponding increase in milk deliveries and a consequent higher production of butter and skimmed milk powder of 55 000 tonnes and 105 000 tonnes respectively. These additional quantities of butter and skimmed milk powder are allocated between the 1993 and 1994 financial years as follows :

	tonnes	
	1993	1994
Butter	+ 20 000	+ 35 000
Skimmed milk powder	+ 40 000	+ 65 000

Assuming that these additional quantities are exported to third countries, the additional cost to the EAGGF is the following :

<u>1993</u>	<u>Mio ECU (B)</u>
Butter : 20 000 t x 1 690 ECU/t x 1.205 (DT) = +	40.7
Skimmed milk powder: 40 000 t x 645 ECU/t x 1.205 (DT) = +	<u>31.1</u>
TOTAL	+ 71.8

1994

Butter : 35 000 t x 1 640 ECU/t x 1.205 (DT) = +	57.4
Skimmed milk powder: 65 000 t x 900 ECU/t x 1.205 (DT) = +	<u>70.5</u>
TOTAL	+ 127.9

In addition, the maintenance of the 100 000 tonne increase in quota for Greece in 1994/95 and onwards would also lead to an extra expenditure of 12 Mio ECU (B) in 1994 and of 21 Mio ECU (B) for 1995 and subsequent years.

(ii) Compensation for the reduction of quotas

The financial assessment made at the time of the reform decisions took account of compensation to be paid to producers in 1994 in respect of the 1% reduction of quotas in 1993/94 (153 Mio ECU). Given that this quota reduction will now be applied as from 1994/95 instead of 1993/94, these compensation payments will accordingly be transferred from 1994 to 1995.

(iii) Impact on the beef sector

The financial assessment made at the time of the reform decisions also took account of the impact on the beef sector of the quota reduction of 1% for 1993/94. It was estimated that this would lead to extra beef production in 1994 of 76 000 tonnes, involving additional public storage expenditure of 189 Mio ECU. This extra expenditure will not now take place in 1994. Instead, the extra beef production will arise in 1995. Assuming that the extra quantities are purchased into public intervention and within the intervention ceiling, the additional public storage costs for that year would be 181 Mio ECU.

b) Increase in quotas for Spain and Italy

(i) Impact on milk production

The envisaged increase in the delivery quotas for Spain and Italy cannot be dissociated from the measures which have been introduced to reduce milk production in these two Member States. For Spain, measures for the buying-up of quotas are designed to reduce milk production by a total of 0.8 mio tonnes, whilst for Italy a corresponding reduction of about 1.6 mio tonnes should be achieved by 1.4.1995.

On the assumption that Spain achieves its reduction objective within the 1993 financial year but that the reductions in Italy are staged over three years (0.3 mio tonnes in 1993, 0.65 mio tonnes in 1994 and 0.65 mio tonnes in 1995), the total cumulative impact on milk deliveries and the consequent cumulative effect on butter and skimmed milk powder production is as follows :

	1993	1994	1995
Milk deliveries (mio t)	- 1.10	- 1.75	- 2.40
Butter production (1000 t)	- 50 000	- 85 000	- 115 000
Skimmed milk powder production (1000 t)	- 95 000	- 155 000	- 210 000

In terms of their disposal cost on third country markets, these reductions in the production of butter and skimmed milk powder are estimated to lead to the following savings :

1993 Mio ECU (B)

Butter :- 50 000 t x 1 690 ECU/t x 1.205 (DT) = - 101.8  
 Skimmed milk powder:- 95 000 t x 645 ECU/t x 1.205 (DT) = - 73.8  
 TOTAL - 175.6

1994

Butter :- 85 000 t x 1 640 ECU/t x 1.205 (DT) = - 168.0  
 Skimmed milk powder:-155 000 t x 900 ECU/t x 1.205 (DT) = - 168.1  
 TOTAL - 336.1

1995 and onwards

Butter :-115 000 t x 1 580 ECU/t x 1.205 (DT) = - 218.9  
 Skimmed milk powder:-210 000 t x 900 ECU/t x 1.205 (DT) = - 227.7  
 TOTAL - 446.6

(ii) Impact on the beef sector

The reduction in milk production in the two Member States concerned will require the corresponding removal of cows from the dairy herd. Assuming the cows are slaughtered, the consequent additional meat production and the extra costs of public storage<sup>(1)</sup> are assessed as follows :

	Quantity tonnes	Cost Mio ECU (B)
1993	+ 70 000	+ 184
1994	+ 40 000	+ 99
1995	+ 40 000	+ 94
TOTAL	+ 150 000	+ 377

(1) Assuming that the extra quantities can be purchased within the intervention ceilings for the years concerned.



(III) Effect of the Increases in quotas

Given that the level of milk production in Italy and Spain is greater than current quota levels and will not be lower than the new quota levels now envisaged for 1993/94, the proposed quota increases for these two Member States do not lead to an increase in deliveries. Instead, the potential financial impact of the additional quotas should be seen in terms of receipts foregone from the application of the superlevy. In this respect, each 100 000 tonnes of increase in the quota for 1993/94, is equivalent to foregone superlevy receipts calculated as follows :

$$100\ 000\ t \times 261.40\ ECU/t \times 115\% \times 1.205\ (DT) = 36.2\ Mio\ ECU\ (B).$$

c) Additional reduction in the intervention price for butter and in the target price for milk as from 1.7.1993

The effect of the proposal is that for the period 1.7.1993 to 30.6.1994, institutional prices will now be as follows :

	ECU/tonne		
	Proposed prices (1)	Previous prices (1)	Variation
Butter intervention price	2 746.60	2 818.90	- 72.3
Butter purchase price	2 471.90	2 537.00	- 65.1
Skimmed milk powder price	1 702.70	1 702.70	-
Target price	258.00	261.40	- 3.4

(1) Taking into account the application of the monetary correction coefficient of 1.012674.

The financial impact of these price reductions for the 1993/94 marketing year is assessed below :

(i) Export restitutions Mio ECU (B)

Butter and butteroil: 230 000 t x -65.1 ECU/t x 1.205 (DT) = - 18.0  
 Skimmed milk powder : -  
 Other products : 10.4 mio t x -3.4 ECU/t x 1.205 (DT) = - 42.6

(ii) Private storage for butter

. Normal aid : 200 000 t x - 4.4 ECU/t x 1.205 (DT) = - 1.1  
 . Special increase : 125 000 t x 65.1 ECU/t x 1.205 (DT) = + 9.8

(iii) Public storage for butter

. Financial costs : - 0.1 Mio ECU (A) x 1.205 (DT) = - 0.1  
 . Other costs : + 6.7 Mio ECU (A) x 1.205 (DT) = + 8.0  
 . Depreciation : - 2.3 Mio ECU (A) x 1.205 (DT) = - 2.8  
 TOTAL + 5.1

(iv) Aids for butter: 445 000 t x -65.1 ECU/t x 1.205 (DT) = - 34.9

(v) School milk : 575 000 t x -4.25 ECU/t x 1.205 (DT) = - 2.9

TOTAL - 84.6

This total saving of 85 Mio ECU (B) for the quota year 1993/94 is allocated as follows between the 1993 and 1994 financial years :

1993 : - 12 Mio ECU (B)

1994 : - 73 Mio ECU (B)

### 3. CONCLUSION

The financial impact of the measures proposed can be summarized in the table shown below :

	Mio ECU (B)			
	1993	1994	1995	1996 onwards
a) Non-reduction in quotas of 1% in 1993/94 and increase of 0.1 mio t for Greece; quota reduction of 2% from 1994/95 :				
- increased milk production	+ 72	+ 140	+ 21	+ 21
- compensation payments	-	- 153	+ 153	-
- impact on beef sector	-	- 189	+ 181	-
b) Increase in quotas for Spain and Italy and impact of buying-up measures :				
- reduced milk production	- 176	- 336	- 447	- 447
- impact on beef sector	+ 184	+ 99	+ 94	-
- superlevy receipts	(1)	(1)	(1)	(1)
c) Additional price reduction from 1.7.1993 instead of 1.7.1994 for the butter intervention price and the milk target price	- 12	- 73	-	-
<b>TOTAL</b>	<b>+ 68</b>	<b>- 512</b>	<b>+ 2</b>	<b>- 426</b>

(1) Each 100 000 tonnes of milk removed from the application of the superlevy corresponds to foregone levy receipts of 36 Mio ECU.

Finally, it should be noted that this assessment takes no account of the impact for the EAGGF of any Community contribution which may be made towards the cost of the national buying-up programmes being operated in Spain and Italy in order to reduce production by 0.8 mio tonnes and 1.6 mio tonnes respectively.



COMMISSION  
OF THE EUROPEAN  
COMMUNITIES

**REPORT FROM THE COMMISSION TO THE COUNCIL ON  
THE PROGRESS MADE BY GREECE, SPAIN AND ITALY  
IN THE EFFECTIVE APPLICATION OF  
THE MILK QUOTA SCHEME  
AT 5 MARCH 1993**

## C O N T E N T S

### INTRODUCTION

Situation in 1992

Request for additional quotas

### PROGRESS AT 15 FEBRUARY 1993

Preliminary comments

Greece

Spain

Italy

### CONCLUSIONS AND PROPOSAL

ANNEX      Reports transmitted by Greece, Spain and Italy

## INTRODUCTION

### Situation in 1992

Three Member States - Greece, Spain and Italy - had not fully introduced the milk quota scheme by 1992.

Greece was entitled to apply country-wide compensations, which meant that no additional levies were due until the national guaranteed quantity was exceeded. This overrun in production first occurred in the 1988/89 milk year. Additional levies were charged to the milk industry by the Greek authorities in late 1992 for excess production in 1988/89, but have not yet been collected, and levies for 1990/91 and subsequent milk years are still to be established.

In Spain, although individual reference quantities for deliveries were provisionally allocated in 1987, no system was established to permit additional levies to be collected. Following a re-assessment of production statistics in 1991, it transpired that production had substantially exceeded the national reference quantity, with excess deliveries amounting to some 1.5 million tonnes in 1990/91.

In Italy the national authorities had laid down a legal framework for the collection of additional levies, but UNALAT, the association of producer groups which represents practically the whole dairy industry, had failed to apply it, and had in particular failed to allocate individual reference quantities to its members, amongst other reasons because production already exceeded the quota allocated to it. A full re-assessment of production conducted in 1991 showed excess production of some 2.5 million tonnes in that year.

### Request for additional quotas

The three Member States requested increases in their national guaranteed quantities for deliveries. Spain and Italy asserted that, as a result of shortcomings in their national production statistics, production in the original reference year had been underestimated, and therefore higher national guaranteed quantities should have been claimed initially. All three asserted that structural changes, in particular rapid urbanization, had led to increased demand for milk and milk products, thus increasing the gap between demand and the national production quotas.

The Council of Ministers agreed on 21 May 1992 (Greece and Spain) and on 16 December 1992 (Italy) to consider an increase in the guaranteed total quantities with effect from 1 April 1993 in order to permit a rapid transition to full compliance with the quota arrangements. Certain conditions were attached which each of the three Member States was required to respect, in particular:

- (a) an agency shall be established, having the general competence for the implementation and supervision of the additional levy system,
- (b) individual reference quantities, based on their deliveries in 1991/92, shall be allocated to each producer, the total of which shall not exceed the guaranteed total quantity,
- (c) the levies due shall be collected from the producers who have contributed to the excess production, after having shared out the excess quantities of other producers.

The additional guaranteed quantities envisaged and the arrangements to absorb the excess production, are summarized in Annex 1.

The three Member States were required to send to the Commission before 31 December 1992 (Greece, Spain) and 31 January 1993 (Italy), reports attesting to the introduction in national regulations and the effective implementation of these provisions, which were to be sent to the Council accompanied by appropriate proposals from the Commission.

PROGRESS AT 15 FEBRUARY 1993

Preliminary remarks

Commission officials have:

- (a) examined the reports which each of the three Member States submitted by the due date,
- (b) examined the national regulations, whether adopted or still under consideration, which aim at applying the milk quota scheme,
- (c) conducted inspection visits lasting three weeks to the responsible control departments and a selection of regional authorities, dairies, producer associations and producers in the three Member States in order to appraise the progress made in the field.

It is apparent that the time required to fully introduce a quota system covering all milk producers should not be underestimated.

Firstly the enabling legislation and the detailed implementing rules must be proposed and adopted in a form which is workable in countries as highly federalized as Spain and Italy.

Secondly procedures must be established for recording deliveries of milk to each dairy or intermediary buyer, establishing its fat content, identifying the producer and determining when the producer's individual reference quantity has been exceeded.

The individual reference quantities have to be established, and the opportunity given for appeals and reassessment.

Buy-up schemes cannot usefully be implemented until the claimants' entitlements to quotas have been established.

A structure for inspections and supervision must be established to verify production declarations, to ascertain cessation in the case of buy-up, to ensure that all quantities of milk traded by intermediaries are properly accounted for, and to ensure that the appropriate amounts of levy are calculated and collected.

The Commission has examined the progress made by each of the three Member States. It must be stressed that none had completed the implementation process by mid-February 1993. Each aims to apply the quota scheme as from 1 April 1993, i.e. as from the 1993/94 marketing year, and none plans to collect additional levies for the 1992/93 milk year. Only at the end of the 1993/94 marketing year, therefore, will it be possible to confirm application of the system, as levies can then be seen to be collected from those individual producers who exceed their reference quantities.

The Commission's main aim is to ensure that the milk quota scheme is effectively applied. Until then the Commission will continue through the clearance of accounts procedure to recover from the Member States concerned appropriate sums to compensate for their failure to collect additional levies on excess production. In this context it should be borne in mind that the additional levy is not intended as a source of revenue for the Community budget, but as a means of restricting milk production to a certain maximum quantity. This objective will be achieved only when the burden of the levy is borne by the individual producers rather than the Member States.



## GREECE

### Legal provisions

The Greek authorities adopted a legal basis for the implementation of the milk quota scheme on 28 September 1984, and, in response to Commission observations, amended this by adopting a replacement decree on 14 July 1986. Formula "B" had been applied whereby all the dairies were considered as one purchaser.

On 10 April 1992, the Ministry of Agriculture issued a circular which established the procedure for the allocation of individual reference quantities to each producer, one quantity for deliveries to dairies, or intermediaries, and one for direct sales. The regional agricultural directorates were required to perform administrative checks on all claims for quotas, and to verify 10 % on the spot. DIDAGEP was required to allocate the national guaranteed quantity between the regional directorates, which would in turn allocate individual reference quantities to producers. This procedure was to have been completed by 10 January 1993.

Purchasers of milk are required to keep a record of the quantities delivered by each producer and of the fat content and to collect the additional levy due by producers exceeding their reference quantities. Direct sales are declared at the end of each year to the competent regional directorate, which establishes the amount of any additional levy due.

The regional directorates are responsible for all the controls and cross-checks between the records of producers, dairies and intermediaries.

### Implementation

#### Individual reference quantities

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For the 1992/93 milk year, before the introduction of the revised scheme, reference quantities were distributed to the dairy industry, but there has been no meaningful distribution by the industry to the individual producers.

The introduction of the revised scheme has fallen considerably behind the schedule laid down in the circular dated 10 April 1992. It is now expected that DIDAGEP will allocate the 1993/94 reference quantities to the regional directorates on 10 March 1993, instead of 15 November 1992 as laid down in the circular, and further time will be required for the regional directorates to allocate individual reference quantities to each producer.

The quantities available on each producer's holding have been assessed by the regional authorities in relation to the number of cows held and to an estimate of their milk yields. The Commission has proposed that the Greek authorities base the individual reference quantities not on this rather arbitrary evaluation but on actual deliveries to dairies in the 1991/92 milk year, as the Spanish and Italian authorities have done. Moreover, the provisions regarding the milk fat content do not comply with the Community regulations, as no individual average content has been established.

#### Competent agency

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A condition for the Council's agreement was that an agency is to have general competence for the implementation and supervision of the additional levy system, and in particular is to have the power to:

- check on the spot the accuracy of producers' and purchasers' declarations,
- calculate the levy due and collect it.

None has yet been appointed in Greece, but the authorities have indicated their intention to establish a Milk Board before the beginning of the 1993/94 milk year.

The Commission considers that the principal obstacle to proper implementation of the milk quota scheme in Greece is the lack of central supervision and control which such a body should be exercising. The present reliance on 56 regional directorates for all administration and verification has been the main cause of delay in allocating individual reference quantities, leads to unequal treatment of producers, and prevents any effective cross-check on quantities of milk produced in one region but sold to an intermediary or dairy trading in another.

Unlike Spain and Italy, there is as yet no provision in Greece for a central record of production and deliveries or even any record at regional level.

#### Conclusions

The Commission has informed the Greek authorities that it considers that the essential prerequisites for the application of the milk quota regime in Greece are the establishment of a central agency with the means to record and monitor milk production and deliveries, and the allocation of individual reference quantities based on deliveries to dairies in the 1991/92 milk year. These requirements have yet to be met.

On the basis of the unreliable production figures submitted by the regional directorates, requests for individual reference quantities for deliveries cover a total of some 775 000 tonnes, considerably more than the 625 000 tonnes in the national guaranteed quantity which will become available after the increase in the national quota. These disquieting statistics, which indicate that production is increasing much more rapidly than foreseen, underline the necessity for the implementation of systems for accurate and timely recording of production figures.

## SPAIN

### Legal provisions

The Spanish authorities have adopted substantial legal provisions covering the implementation of the Community additional levy arrangements. Those provisions clearly demonstrate Spain's determination to apply the arrangements. The first national texts submitted for examination have been applicable from 1 April 1992 but will have to be adapted to the regulations adopted by the Council and the Commission governing the extension of the arrangements from 1 April 1993.

#### (a) Texts adopted in December 1991

The basic text for the implementation of the arrangements is the Royal Decree of 30 December 1991 providing for a plan for restructuring the dairy sector.

- (i) It provides for the allocation of individual reference quantities to all producers and producer groups who declared and provided supporting documents for quantities marketed by them for 1985 (or, where applicable, 1983 or 1984). That quantity may be affected by the application of various percentages provided for in the Community regulations and may vary or change as provided for therein.

The levy is payable where the individual quantity adjusted on the basis of the fat content of the products is exceeded and after quantities have been balanced out.

- (ii) A national reserve is set up and may be supplied from the various sources provided for in Community law, including programmes for the voluntary discontinuation of production. Such programmes, be they national or Community, can only permit the definitive discontinuation of production and not temporary discontinuation as provided for in Article 5(2) of the Decree. Quantities are allocated from the reserve in accordance with Community law.

By a decree adopted on 30 December 1991 too, plans for the definitive discontinuation of milk production were implemented. That programme brings together in a single operation the various possibilities afforded by Community legislation in particular as regards the use of Community funds.

From the legal viewpoint, the programme presentation is in line with the Community provisions while it is also pointed out that a resolution (see below) was adopted in July 1992 by SENPA to verify, by means of supporting documents and on-the-spot checks, that all production has actually been definitively discontinued.

(b) Texts adopted in 1992

The Decree of 30 December 1991 summarized in (a) was followed by the Order of 26 June 1992 on the updating of individual reference quantities of milk producers affected by transfers before 1 April 1991.

To update the reference quantities, producers receiving transfers in whatever form before 1 April 1991 must make an application for registration as having an individual reference quantity on their own holdings since 1 April 1991. In addition they must have been engaged in production uninterruptedly (except in cases of force majeure) from the date of the transfer to that of submission of their applications.

That Order should provide the Spanish authorities with a clear idea of the number and identity of persons with individual quantities at 1 April 1993 when Council Regulation (EEC) No 3950/92 is affected.

Following the agreement reached in the Council on 21 May 1992 to make its decision to increase Spain's guaranteed total quantity by 500 000 tonnes subject to a certain number of conditions, on 30 October 1992 the Spanish authorities adopted a Royal Decree implementing those conditions.

Thus, the public body designated to apply and monitor the scheme is SENPA. The latter is authorized to calculate the levy once the figures have been forwarded and production declarations received and verified. That authorization is very precise and ensures proper application of the scheme within the time limits laid down. There is also provision for the Ministry of Finance to take action for recovery of sums and to ensure effective execution of procedures.

The text states clearly that individual reference quantities are to be allocated to producers and that all changes relating to quantities are to be registered.

The basis for calculating such allocations has been altered as compared with the Decree of 31 December 1991 since a programme for the discontinuation of milk production has been applied and the Council has decided, subject to conditions, to increase Spain's guaranteed total quantity. At all events there is provision for a downward adjustment in individual quantities so that the sum thereof does not exceed the guaranteed total quantity.

At the same time as the Royal Decree was adopted, various resolutions were adopted by SENPA. Two of them relate to the declarations to be made by purchasers and by direct sellers.

A third resolution lays down rules on the verification and monitoring of definitive discontinuation of production.

By the Royal Decree of 30 October 1992, followed by the Order of 4 December 1992, the Spanish authorities supplemented and where necessary amended the texts adopted previously in order to comply more closely with the conditions which the Council laid down for the definitive decision to increase the Spanish guaranteed total quantity. The Spanish authorities have even implemented in advance of the time limit certain provisions which the Council only adopted in December 1992, such as the possibility purchasers enjoy of withholding advances to producers to ensure collection of the levy.

### Appraisal

The Spanish authorities have adopted texts demonstrating their clear determination to comply as closely as possible with the conditions laid down by the Council for a definitive increase in the guaranteed total quantity. The legislation must be slightly amended to adapt it to the regulations on the reform applicable from 1 April 1993.

The legislation is at variance with Community requirements, in particular in so far as it provides for a reduction in the reference quantity where utilization is less than 75% over two consecutive periods, except in cases of force majeure.

### Implementation of the scheme

#### Allocation of individual reference quantities

SENPA, the body assigned general competence for implementation and supervision of the scheme, has introduced the systems necessary to record and cross-check declarations of milk deliveries, has obtained from the dairies and the intermediaries the declarations concerning the 1991/92 marketing year and allocated a provisional individual reference quantity and fat content to each producer by letter of notification in December 1992.

SENPA has undertaken a programme of checks on declarations submitted by milk purchasers. Definitive individual reference quantities for deliveries will be allocated once these verifications have been completed, once grounds for appeals against the provisional allocation of reference quantities, lodged by some 20 % of milk producers, have been examined and after confirmation by the Council of the increase in the national guaranteed quantity. It is also intended to inform milk purchasers before 1 April 1993 of individual quotas allocated.

A programme for the verification of declarations of direct sales must also be completed before reference quantities can be allocated. In the meantime, no accurate information is available on the quantities covered by direct sales, estimated at some 10 % of total milk production.

#### National buy-up scheme

The nationally funded repurchase programme was implemented in April 1992 and a total of 656 000 tonnes has been bought up (568 000 tonnes of deliveries quota and 88 000 tonnes of direct sales quota).

Actual implementation is thus close to the target of the repurchase of 600 000 tonnes of delivery quota set in the agreement with the Council.

SENPA has carried out checks on compliance by the claimants, with generally satisfactory results. This buy-up scheme was based on the reference quantities distributed in 1987 and was implemented before definitive reference quantities were established. However, as the repurchase programme took place after 1991/92, any substitution of the bought-up quantities by other producers will not be reflected in these producers' quotas and will thus be eliminated in 1993/94. The effectiveness of the repurchase programme is also supported by slaughter statistics, which show that 35 % more heifers were slaughtered in 1992 than in 1991 (205 826 slaughtered in 1992, 152 493 in 1991).

The repurchase scheme to be financed by the Community has not yet been launched, pending confirmation of the Council's agreement, and finalization of individual reference quantities.

Conclusion

Spain has made considerable progress towards the effective implementation of the milk quota regime by 1993/94.

The Commission has verified that SENPA, both at its head office and in its departments in the regions in which most of the milk is produced, is undertaking the controls necessary to establish a sound basis for effective implementation and sees no reason why these controls should not be completed before 1 April 1993 and definitive individual reference quantities allocated for deliveries.

Until verification of claims for direct sales quotas is completed and the quantity of direct sales established, the Commission cannot confirm that 150 000 tonnes of national guaranteed quantity are available for transfer from direct sales to deliveries, as proposed in the agreement with the Council.

ITALY

Legal provisions

Framework law

The Framework Law laying down urgent measures for the dairy sector and covering the implementation of the Community additional levy arrangements came into force on 19 December 1992.

(a) Allocation of individual reference quantities

To obtain an individual reference quantity, one must belong to a group or be registered individually in lists published by the authorities. Member producers have an A quota corresponding to quantities marketed in 1988/89 (or from 1985/86 to 1987/88 in the event of exceptional circumstances) and a B quota corresponding to the amount by which quantities marketed in 1991/92 exceed those in 1988/89. Non-member producers only have A quotas corresponding to the quantities allocated to them in 1988 and which cannot exceed the quantities marketed in 1990/91 or 1991/92.

Reference quantities are all allocated subject to a decision by the Council regarding the increase in Italy's guaranteed total quantity. National measures will be taken for the difference, i.e. the B quota, to be absorbed over three years.

To that end, AIMA is authorized to introduce programmes for the voluntary discontinuation of production with the possibility of a difference in the way A and B quotas are dealt with.

Even though the Community arrangements do not provide for the allocation of two quotas per producer, the practical solution proposed to absorb the production surplus may be accepted.

(b) Calculation and payment of levy

In accordance with Article 3 of the Law, producer groups may manage their members' quotas.

Article 5, 6 and 7 lay down provisions on payment of the levy.

Purchasers must draw up declarations of production by non-members and forward them with those for members within the time limits laid down in the Community regulations, in particular but not exclusively to AIMA.



For non-members, purchasers withhold the levy where the individual quota is exceeded and pay it to the authorities within three months from 31 March, deliveries made outside quotas being charged in full. For members, the same amount is withheld but deliveries are balanced out within four months from 31 March and payment takes place within 20 days of that time limit. Purchasers pay the levy to the authorities and refund any sums over to the producers.

(c) Penalties and controls

The text expresses a determination to ensure that the levy is paid by those liable. Penalties apply at all stages of the process.

Controls are conducted by the regions and autonomous provinces within their areas of responsibility and without prejudice to checks falling within that of the judicial police and fraud prevention department.

Implementing rules

The Commission was consulted on the draft implementing rules, which are to be adopted before 1 April 1993, and sees to it that they take account of certain shortcomings or omissions in the Framework Law, i.e. in particular:

- the fat content of the products delivered to be taken into account,
- the amendments to be made following the reform of the milk quota scheme in 1993/94,
- no discrimination to be made between members and non-members of producer organizations,
- the link between the individual quota and the land,
- the procedure for paying the levy where the quota for direct sales is exceeded.

The latest draft, forwarded on 22 February 1993, is basically in line with the Commission's comments.

noted and referred to the relevant authorities for their consideration.

## Appraisal

The process of national implementation of the additional levy arrangements is under way.

The national law demonstrates clear determination to apply the Community additional levy arrangements as regards the allocation of individual reference quantities, payment of the levy and application of penalties.

It seems probable that the implementing rules will be published in accordance with the timetable laid down and that they will supplement the provisions of the Law of 19 December 1992. A comprehensive legal framework will then exist.

However, the Commission has drawn the attention of the Italian authorities to the following points:

- management of quotas by producer groups, as provided for in Article 3 of the Law, introduces a difference of treatment between member producers and non-members, in particular as regards the amount and payment of the levy due. In addition, such management no longer has any legal basis since Article 12(c) of Regulation (EEC) No 857/84, to which the national Law refers and which treats producer groups in the same way as producers, was not incorporated in Regulation (EEC) No 3950/92;
- Article 2(3) and (7) of the national Law, which reduce reference quantities to bring them into line with quantities actually marketed if the latter are less than the former, are at variance with the Community rules, which do not require producers to produce and market the whole of the reference quantity allocated to them.

## Implementation of the regime

### Allocation of individual reference quantities

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The individual reference quantities were provisionally established in a bulletin published on 19 January 1993. These provisional figures are being verified and cross-checked by the producer associations, and it is intended that the definitive individual reference quantities will be published on 15 March 1993. It is not at present intended to notify each individual producer, although the Commission considers this to be an essential element of an effective application of the quota regime.

Whilst those producers which benefited from repurchase programmes have been eliminated from the lists of individual quota holders, the status of some 40 000 producers who ceased producing without compensation, and thus are eligible to claim quotas, is at present under examination.

Until January 1993, AIMA had relied entirely on UNALAT for the establishment of the quantities delivered to each purchaser. On 27 January, AIMA sent to all regional authorities instructions to undertake checks on the data on which the quota allocations were based.

During its missions to a selection of regions, producer associations and purchasers, the Commission's departments found that the purchasers have kept a sufficient record of deliveries and of fat content since 1988/89, and that it is possible to verify the deliveries declared by the Producer Associations for the 1988/89 and 1991/92 years to the purchasers' books and records. The regional authorities are aware of their control responsibilities.

There is thus evidence that a sound basis exists for the allocation of substantially all the deliveries quotas, and for a control over deliveries and over the collection of supplementary levies. However, as the controls by the regional authorities have only now begun to be implemented, a verification of their effectiveness cannot yet be undertaken.

So far as concerns direct sales, the basis for declaration, control and levy collection is provided for in the draft implementing regulations.

Competent agency  
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The conditions to the Council's agreement require the agency having general competence for the implementation and the supervision of the system to have the power to

- check on the spot the accuracy of the declarations of producers and purchasers,
- calculate the levy due and collect it.

In Italy, the responsibility for checks has been allocated not to a single body such as AIMA, but to the regional authorities. The Commission's departments will continue their close monitoring of the implementation, and verify in particular the adequacy of the controls to be exercised by the regional authorities. The Commission considers it more appropriate for a central body to undertake checks throughout the territory, so that full assurance can be gained that the quantities on which levies are collected are fully verified.

Repurchase scheme

Three repurchase schemes had been undertaken before the Council's agreement, a programme of 163 592 tonnes repurchased under regulation 1183/90, a nationally financed repurchase programme of 440 000 tonnes established by AIMA on 22 March 1991, and a programme of 285 853 tonnes under regulation 1637/91.

Except for some 10% of the claims under the last-mentioned programme which are still being processed, the Italian authorities have verified that no beneficiary has received a production quota.

The repurchase programme of up to 0,73 million tonnes mentioned in the Council's agreement has not yet been implemented, pending a definitive agreement on EEC finance and the establishment of the quantity of surplus production to be absorbed.

Conclusions on the progress made

A system which affects so many producers and so large an industry takes a certain time to implement. The basic conditions, covering the essential of all milk production, have been established, in that the enabling legislation has been adopted, the individual production statistics established and individual reference quantities provisionally allocated for deliveries.

The Commission's departments are satisfied that the next steps are in the process of being taken, which are the adopting of the detailed implementing rules, and the establishment and implementation of control systems throughout the regions.

It will take some further months before the progress on these next steps can be verified, and all controls over repurchase programmes and quota allocations completed, and indeed some years before the full application of the quotas can be confirmed, as is recognized in the Council's agreement which provides for a time limit of 1 April 1995 for the full absorption of excess production.

### CONCLUSIONS AND PROPOSAL

As none of the three Member States has applied the regime, or is in a position to collect supplementary levies, in the 1992/93 year, it will not be until the end of the 1993/94 year that the final proof of compliance, the collection of levies from producers exceeding their individual reference quantities, will be available for verification. It is therefore still too early for the Commission to confirm that all the conditions of the Council's agreement have been met.

The Commission considers that, provided it respects its intentions mentioned in this report, Spain has made, by 15 February 1993 all the progress which, given the point of departure, can be reasonably expected towards fulfilling the conditions. Greece and Italy have made a substantial effort and progress to apply the Council conditions taking into account particularly the difficult initial situation and time available.

Nevertheless, further progress is required.

For Greece, the following conditions remain to be fulfilled:

- a) individual reference quantities have to be calculated on the basis of deliveries to purchasers in 1991/92, and individual fat reference quantities established,
- b) individual reference quantities have to be notified to each producer, and communicated to the purchasers,
- c) a central agency must be established and equipped to verify the production records and the collection of levies due,
- d) an adequate record of production must be established both locally and centrally.

Similarly, for Italy the following conditions remain to be fulfilled :

- a) adoption of the implementing regulations,
- b) notification to each producer of the individual reference quantities and communication of these to the purchasers,
- c) establishment of a central agency for the effective verification of the quantities declared and of the quantities on which levies are charged.

Moreover, the attention of the Italian authorities is drawn to the need to remove all discrimination between affiliated and non affiliated producers.

The Commission, therefore, proposes an interim solution whereby:

- a) The guaranteed quantity for deliveries for Spain be increased provisionally, for the 1993/94 year only by the amounts mentioned in Annex I.

- (b) Greece and Italy are granted until 15 May 1993 to fulfil the conditions of the Council agreement so that, by the end of July 1993 and on the basis of a further proposal from the Commission, an increase of the guaranteed quantities for deliveries may be considered for the 1993/94 milk year.
- (c) It reports again to the Council in March 1994 on further progress made in the effective application of the milk quota scheme in the three countries concerned and proposes further measures to be taken in the light of such progress, and in particular states whether the increased quotas should be continued in 1994/95.

PROPOSALS FOR ABSORBING EXCESS PRODUCTION

SPAIN

	SPAIN (tonnes)
Present quota	
- Deliveries	4 550 000
- Direct sales	527 000
Present estimated production	6 000 000
Difference between quota/production	1 450 000
National buy-up already decided	600 000
<u>SOLUTION</u>	
Revision quota	500 000
Direct sales transfer	150 000
Buy-up financed by the Community	200 000

GREECE: Quota is increased by 100 000 tonnes

	<u>Million tonnes</u>
<u>ITALY</u>	
I. Excess to be removed	2.47
II. Of which to be removed without compensation in accordance with Italian law	0.84
III. Net excess	1.63
IV. Increase in wholesale quota	0.9
V. Amount to be bought up	0.73
VI. Amount to be purchased with Community contribution (25% of V)	0.2

ANNEX

REPORTS TRANSMITTED BY GREECE, SPAIN AND ITALY



HELLENIC REPUBLIC  
Ministry of Agriculture

ATHENS, 30 November 1992  
Ref : 210365

- I. Directorate for Management of Agricultural Products  
Animal Products Section  
Akharnon 241 10446 ATHENS  
Information : G. Zakharopoulos  
Tel : 8626415  
To : EEC Commission  
VI/DI - Milk Products
- II. Directorate for Animal Production  
and Exploitation of Animal Products  
Milk Products Section  
Kapnokoptiriou 6  
Information : E. Bollas  
Tel : 8215894  
Copies : EAGGF  
Greek Permanent  
Representative

SUBJECT : Milk quotas

Pursuant to the provisions of the Council's compromise document No 6953/92/AGRI 53 of 2 June 1992 on reform of the CAP, we enclose the report provided for in paragraph 6 of Annex II of that document.

#### REPORT ON IMPLEMENTATION OF THE MILK QUOTA SYSTEM IN GREECE

##### 1. Implementation of the system

Since the milk quota system was first implemented, and up to the present time (92/93 milk year), Greece has been applying the quota system in accordance with Formula B provided for in Council Regulation (EEC) No 857/84 and Commission Regulation (EEC) No 1546/88.

In order to implement the provisions of these Regulations, the Ministries of Agriculture and the National Economy published joint Decision No 204930 of 1 August 1984, which was supplemented and amended by their joint Decision No 39187 of 14 July 1986.

##### 2. Transfer of guaranteed quantities from direct sales to deliveries to dairies

Because of the structural changes which have occurred in Greece in recent years in the way the milk produced is marketed, and in particular

because of the increase in deliveries instead of direct sales (as the result of the steadily increasing demand by consumers for standardized fresh milk products and the implementation of health and veterinary regulations), Community regulations were adopted, following a request by Greece, which allowed the transfer of 110 000 tonnes of milk from direct sales to deliveries.

3. Taking into account the provisions of Regulations (EEC) No 1336/86 and No 775/85 which reduced the overall guaranteed quantities of deliveries and direct sales, and the continual structural changes which have occurred in the areas which collect milk from industries (Formula B), and in order to meet the consumer requirements specified in the previous paragraph, a number of decisions were taken amending the basic implementing Decision No 339187/86, although these only applied to Annexes A and B to that Decision. (These Decisions are enclosed).

#### 4. Monitoring the system

Pursuant to Decision 339187/86, responsibility for monitoring the system has been assigned to the Regional Departments of the Ministry of Agriculture, which in turn keep industries and producers informed about implementation of the system in Greece.

It should be stressed that until the 87/88 milk year there were no serious problems, since overall quantities produced did not exceed the guaranteed quantities specified, after taking into account the possibility of making adjustments for any overruns at national level (Article 10 of Regulation (EEC) 857/84).

Beginning in the 88/89 milk year, production started to exceed the overall guaranteed quantities specified. However, the continual changes occurring in the industrial collection areas and the inherent administrative impossibility of monitoring the system (because the shortage of computer equipment, in particular, and staff made the task of inputting and processing data extremely slow) resulted in a delay in the confirmation and cross-checking of the original figures and consequently in the proportional charging of additional levies to the industries concerned.

5. Proportional charging of additional levies

Pursuant to the relevant Community regulations and national decisions, the Ministry of Agriculture adopted Decision No 205197 of 5 October 1992 on the proportional charging of additional levies for the 88/89 milk year to the industries concerned.

The reasons for the delay in charging were explained in paragraph 4.

The amount concerned - DR 164 913 628 - has already been charged by the EAGGF departments.

6. Overruns for the 89/90, 90/91 and 91/92 milk years

With regard to the overruns for the 89/90, 90/91 and 91/92 milk years, according to the provisional figures, it was agreed at bilateral meetings between the Greek Ministry of Agriculture and the EAGGF held in Brussels on 8 October 1992 to suspend measures to charge these overruns by applying retroactively the overall guaranteed quantities which are expected to be allocated to Greece in the 93/94 milk year, increased by 100 000 tonnes.

7. Direct sales

With regard to the level of direct sales in the period since the introduction of the quota system, we would remind you of document No 35092 of 11 June 1992 that we sent to the EAGGF departments, which states that the figures on direct sales communicated to the Community's Statistical Department are estimates applying only to the regional departments in each area and are designed to establish a balance between the production and consumption of milk in Greece. They cannot therefore be used as a basis for charging additional levies.

8. Monitoring the quota system in the 1992/93 milk year

Because of the regular overruns since the 88/89 milk year, the Ministry of Agriculture has held a series of discussions at regional level with the authorities responsible and has contacted the sectors concerned in order to ensure full compliance with our obligations under Community regulations.

The relevant quotas have already been allocated in turn:

- (a) by the central departments of the Ministry of Agriculture to the regional departments in each prefecture;
- (b) by the regional departments of the Ministry of Agriculture to the local industries;
- (c) by the local industries to producers.

It should be emphasized that all Greek producers now know their own personal quotas (see enclosed model) after being informed by the local industries.

9. Appointing a body to control the system

The enclosed draft law proposes a vote in Parliament on the appointment of a Milk Board to manage the quota system.

This draft law should be voted on before the end of the year and should come into force at the beginning of the 93/94 milk year.

10. Future operation of the system beginning with the 1993/94 milk year

So that Greece can comply in good time with the future proposals of the Commission on reform of the CAP and the application of the quota system, the Ministry of Agriculture published the enclosed circular No 176124 of 10 April 1992 setting out new procedures for applying the quota system.

The procedures for allocating quotas to individual producers are expected to be completed by the end of this year.

11. The departments of the Ministry of Agriculture will be pleased to provide any further details or other information.

Director-General

G. Konstandinidis



# MINISTERIO DE AGRICULTURA, PESCA Y ALIMENTACION

## REPORT FROM THE MINISTRY OF AGRICULTURE, FISHERIES AND FOOD TO THE COMMISSION OF THE EUROPEAN COMMUNITIES

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Re: Council agreement of 21.5.92 for adapting the guaranteed overall quantity for Spain: Allocation of individual quotas.

The consolidated text of the commitment to reforming the CAP in the milk and dairy products sector (Doc. 6953/92 of 2.6.92) in Annexe II sets a guaranteed overall quantity for Spain, taking effect from 1.4.93 and establishes that this decision is subordinate to certain conditions being fulfilled, among which is the fact that the Member State will, before 31.12.92, provide the Commission with a report testifying that the established provisions have been introduced into national legislation so that they can be applied within the specified periods (Annexe Nº 1 of this report).

### National legislative provisions

(All these provisions have been sent to the Commission.)

#### 1.- Provisions passed prior to the Council agreement of 21.5.92 (Annexe Nº 2):

Although these provisions do not form part of the commitment, they are considered to be of interest for understanding the problem of applying the quota system in Spain and as forming a background to the provisions passed in compliance with the said Council agreement:

a) Royal Decree 2466/1986 which established the procedure for determining the reference quantities provided for in (EEC) Regulations 804/68 of the Council and 857/84 of the Commission.



# MINISTERIO DE AGRICULTURA, PESCA Y ALIMENTACION

This Royal Decree has allowed other provisions of lesser rank to be passed and, on the basis of the obligatory statements from producers and buyers established therein, and in spite of containing important loopholes and mistakes, it was possible to make an allocation of provisional individual quotas, which meant a major step towards the implementation of a quota system in Spain.

b) Resolution of the National Agrarian Products Service (SENPA) on the statements to be made by companies buying milk and/or dairy products (12.7.91).

With the aim of fully complying with Community regulations, the authorities of the Ministry of Agriculture, Fisheries and Food (MAPA- Ministerio de Agricultura, Pesca y Alimentación) considered it necessary to produce a more precise report than the one deriving from traditional statistics. The data provided by the obligatory statements from buyers indicated that the volume of milk marketed in 1990 stood at 6,000,000 mt, which meant a surplus of some 1,450,000 mt above the overall quota.

With this information it was decided to prepare a plan of action which essentially consisted in reducing the average production by means of a plan of voluntary abandonment and in requesting the Community authorities to collaborate in order to be able to solve the problem of the effective application of the quota system.

c) Royal Decree 1888/1991 which established a restructuring plan for the milk and dairy products sector.

This constitutes the second basic legislative piece in the development of the actions needed for applying the supplementary rate system. It consists of a framework provision that considers the points established in (EEC) Regulations 857/84 of the Council and 1546/88 of the Commission along with a series of measures for improving production structures, especially with regard to the quality of the milk.

d) MAPA Order of 30 December 1991 which formalized a plan of voluntary abandonment in milk production.

This provision, as with all those that have regulated the abandonment programmes, only affected producers who had been allocated a provisional quota.



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The period in which producers could resort to abandonment to withdraw from activity ended on 1 May 1992 and the quantity of quota bought came to 600,000 mt, so the surplus had been reduced to 850,000 mt.

All this information and the situation of the milk producer sector prior to Spain's membership, as contained in a Memorandum and complementary documentation, was made available to the Commission in full detail and served as the basis for the Council agreement of 21.5.92.

2.- Provisions passed as a consequence of the Council agreement of 21.5.92 (Annexe Nº 3).

a) Resolution of 3 June 1992 from the SENPA on statements to be made by buyers of cow's milk or dairy products deriving from cow's milk.

Annexe II of the Council agreement establishes in section b) that the individual reference quantity is equal to the quantity available at 31.3.92 or otherwise to the production in the eighth period adjusted by a reduction coefficient so that the sum of the individual reference quotas does not exceed the guaranteed overall quantity.

The aim of this provision was to discover the quantity of milk or dairy products bought by the buyers in the eighth period as a necessary element for allocating individual quotas.

b) SENPA resolution of 22 June 1992 by which rules are established for inspection and control of compensated abandonments in milk production.

The aim of this provision is to guarantee that producers resorting to abandoning the activity have actually complied with their commitment, and concerns both producers and economic agents related to the process (buyers of milk and those acquiring the cows or the farm that ceased production).

The Organization responsible for the control is the SENPA, which conducts inspections via its provincial services and, up to the present moment, has carried out several inspections (Annexe Nº 4).



# MINISTERIO DE AGRICULTURA, PESCA Y ALIMENTACION

c) MAPA Order of 26 June 1992 on updating the individual reference quantities of producers affected by acts of transference.

The aim of this provision is to regularize the situation at the eighth period of all producers who, due to inheritance or other reasons, transferred their quotas prior to 1 April 1992, so that the allocations of the quotas provided for in section b) of Annexe II of the commitment can be made to the current producers.

d) SENPA resolution of 20 July 1992 on the statements to be made by the producers who directly sell certified milk or pasteurized milk.

This provision deals with obtaining the necessary information for allocating individual quotas in direct sale, which will be done as soon as the process of allocating delivery quotas to buyers has been completed.

e) Royal Decree 1319/1992 of 30 October which establishes specific rules for applying the supplementary rate system in the milk and dairy products sector.

This provision complements Royal Decrees 2466/1986 and 1888/1991 closing the cycle of basic regulations for the effective application of the quota system in Spain. At the same time it faithfully reflects the conditions established in Annexe II of the Council agreement of 21.5.92:

- It establishes that the individual reference quantities will be allocated by MAPA through the Directorate General of Farming Productions and Markets, which will inform the producers, the competent Organization and the buyers of those allocations.

- The SENPA is appointed as the competent Organization with the participation of the Ministry of Economy and Finance and will be responsible for inspecting and controlling statements from buyers and producers, as well as calculating and collecting the supplementary rates that are owed.

A specific unit in the SENPA is created with the rank of Subdirectorate (Subdirectorate General for Dairy Quotas) for carrying out these undertakings, with the participation in these tasks of the State Agency for Tax Administration on behalf of the Ministry of Economy and Finance.





# MINISTERIO DE AGRICULTURA, PESCA Y ALIMENTACION

- The remaining articles contain the other conditions established in the said Annexe II and all the steps for collecting the supplementary rate considered in (EEC) Regulations 857/84 and 1546/88.

Annexe Nº 5 gives a graphic indication of the scheme for the work of the Organizations involved and the general functioning of the supplementary rate system.

f) MAPA Order of 4 December 1992 regulating certain aspects relating to the allocation of individual reference quantities of deliveries to buyers for applying the supplementary rate system in the milk and dairy products sector.

This provision, which develops Royal Decree 1319/1992, establishes the steps for allocating the individual reference quantities and sets the criteria to be taken into account:

- For producers who had an allocated quota for the statement made on the year 1985, they will be allocated that quantity without any reduction.

- For the above producers whose production in the eighth period exceeded the allocated quota for 1985, their allocation will be reduced by 10 percent of the excess.

- For producers who did not make a statement in 1985, their allocation will be reduced by 20 percent of the production marketed in the eighth period.

This Order contains an Annexe with a standard communication form for producers regarding the allocation of the individual quota corresponding to them; the part that may correspond to them concerning amplification of the overall quota provided for in the Council agreement for 1.4.93 being left as a variable.

Communications on individual reference quantities are currently being sent out and it is hoped that this will be completed in the present month of December. In order to give the process more flexibility, the individual communications signed by the Director General of Farming Productions and Markets are being sent to the provincial Directors of MAPA, who in turn will pass them on to each of the producers in his province.



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We understand that this legislative packet allows the supplementary rate system to be applied in Spain with regard to deliveries to buyers and that it complies with that specified in the conditions established in Annexe II of the Council agreement.

Nevertheless, the allocation of direct sale quotas is going to be tackled immediately and a lesser rank provision will be passed for establishing certain details on dealing with the process.

## Information on the current situation regarding the application of the legislation passed

### 1.- Quantity of milk marketed in the eighth period.

As has already been said, knowledge of this quantity was necessary before allocating the individual quotas. This quantity appears in Annexe nº 6 after having deducted the quotas corresponding to the abandonments established in MAPA Order of 30 December 1991.

### 2.- Allocation of individual quotas.

Taken as the starting point were the quantities of milk and dairy products marketed in the eighth period and the application of the criteria established in MAPA Order of 4 December 1992, taking into account the amplification of the overall quota provided for in the Council agreement. The total figures, with the corresponding reductions, also appear in Annexe Nº 6, being subject to review in line with the result of inspections and controls that are being conducted.

Attached is an example of the individual communication that is being sent to producers (Annexe 7).



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3.- The competent Organization is formally constituted and consists of the following staff:

- Central services: 25 officials.

- Inspectors throughout Spain not including the collaboration of the State Agency for Taxes: 78.

4.- Inspections and control.

As has been stated, intensive inspections are being conducted, both on abandonments (Annexe 4) and on the statements of buyers in the eighth period (Annexe 8).

5.- Forecasts.

a) In December, all communications of individuals quotas will have been made.

b) In January, the allocation of direct sale individual quotas is planned.

c) In January, the provision for the abandonment plan of 200,000 mt, provided for in the Council agreement of 21.5.92, will be passed.

d) All inspections will continue and, prior to 31 March, it will be possible to have a fairly precise result on the accuracy of the statements.

6.- Cooperation with the Services of the Commission.

The Spanish Government desires this cooperation and is willing to facilitate whatever information may be necessary as well as a joint analysis of the problems that may arise from the effective implementation of the supplementary rate system, due to the characteristics of the dairy sector in our country.



# MINISTERIO DE AGRICULTURA, PESCA Y ALIMENTACION

## Conclusion

The points stated in this report confirm that Spain has passed the necessary provisions for complying with the conditions established in Annexe II of the Council agreement of 21.5.92 and that the said provisions are being applied at this moment.

Madrid, 14 December 1992

OFFICE OF THE ITALIAN PERMANENT REPRESENTATIVE  
TO THE EUROPEAN COMMUNITIES

Ref. 980

Brussels, 1 February 1993

Commission of the European Communities,  
DG VI.B.1.,  
130 Rue de la Loi,  
1040 Brussels

**Subject:** Report on application of milk quota arrangements

Please find enclosed letter No C/336 of 30 January 1993 together with the abovementioned report whereby the Italian authorities comply with their obligations pursuant to the decisions of the Council (agriculture) meeting on 14 to 17 December 1992.

A copy of the abovementioned report has been forwarded directly to the Commission by the Ministry of Agriculture and Forestry by fax of 30 January 1993, a receipt for which is appended.

Deputy Permanent Representative

Rocco Antonio Cangelosi

Translation of letter from the Ministry of Agriculture and Forestry to the Commission.

Subject: Report on application of milk quota arrangements

In accordance with the decision of the Council meeting on agriculture of 14 to 17 December 1992, the report on the application in Italy of Community regulations on milk quotas is enclosed.

THE MINISTER

## REPORT ON MILK QUOTAS

### Introduction

The application of the Community arrangements on milk quotas in Italy has not gone smoothly, largely owing to the objective complexity of the system.

Prior to the adoption of Law No 468 of 26 November 1992 laying down urgent measures for the dairy sector, the Italian legal framework covering milk quotas was based on Decree No 258 of the Ministry of Agriculture of 7 June 1989.

In accordance with a possibility opened by the Community regulations, the abovementioned Decree provided for the allocation of an overall reference quantity to UNALAT (Unione fra le associazioni di produttori di latte bovino - association of cow's milk producer organizations) corresponding to the quantities to which producer members were entitled.

Producers not members of UNALAT were granted quotas directly by the Ministry of Agriculture, which published a list of successful applicants with the relevant reference quantities in the Official Gazette.

In the case of member producers, UNALAT was required to pay the additional levy due.

In the case of non-member producers, the purchasers withheld the additional levy in place of the tax authorities.

Overall, the system laid down did not operate smoothly, in particular as regards member producers, especially since when the arrangements came into force, it became apparent that actual national production was substantially higher than that indicated by the statistics used to calculate the national quota.

In February 1992, by note to the President of the EC Commission, the Italian Prime Minister (Presidente del Consiglio dei Ministri) outlined the difficulties encountered in Italy in applying the milk quota arrangements and requested an adjustment to the national quota.

Subsequently, at the summit of heads of State and Government held in Lisbon in June 1992, the European Council called on the Ministers of Agriculture meeting in the Council to put forward a proposal to solve the problems arising in Italy.

At the Council meeting on agriculture in Brussels on 13 and 14 July 1992, with a view to finding a speedy solution to the problem of quotas, the Italian Minister for Agriculture outlined the commitments and efforts which the Italian administration intended making to reduce milk production to within the limits laid down by the Community.

It was also announced at that time that a law was to be adopted to define a new framework of rules on milk quotas with a view to overcoming all the obstacles which had hitherto prevented proper application of the arrangements.

A commitment to reduce national production by 1 600 000 tonnes within three milk years was also announced. The first stage was to be completed in the 1992/93 milk year and to involve a reduction of 300 000 tonnes of milk in production.



This would call for the support of the Council and the Commission since the efforts and sacrifices required of the Italian dairy industry were considerable.

The provisions announced by the Minister for Agriculture were approved by the Italian cabinet at a meeting held on 13 August 1992.

In September, examination of the provisions commenced in the two houses after the summer break.

In November the provisions were definitively adopted by Parliament and published in Official Gazette No 286 of 4 December 1992 (Law No 468 of 26 November 1992).

The content of Law No 468/92

Law No 468/92, which came into force on 19 December 1992 (a fortnight following publication in the Official Gazette in accordance with the general rule applying), provides for reference quantities to be allocated to all Italian producers who produced milk in the 1988/89 milk year in the case of members of producer organizations or in 1983 in the case of non-members.

Non-member producers are to be granted a quota equal to the reference quantity already allocated to those producers in the current milk year by the Ministry of Agriculture.

The list of this group of producers and the relevant reference quantities, broken down into deliveries and direct sales, was published in the Annex to the Ministerial Decree of 26 May 1992 (Official Gazette No 130 of 4 June 1992).

Reference quantities for member producers are divided, in the case of both deliveries and direct sales, into A quotas, equal to production in 1988/89, and B quotas, equal to the amount by which production in 1991/92 exceeded that in 1988/89.

In order to bring Italian production within the limits laid down by the Community regulations, AIMA is to implement a production discontinuation programme with a system of compensation, or alternatively reductions are to be made in the B quotas without any corresponding compensation being paid.

The quotas are allocated to individual producers, who are directly responsible for any production in excess and are liable to any levy to be paid thereon.

During the initial application phase, the Law provides that AIMA is to publish a first list of producers allocated quotas and the relevant reference quantities.

This first list of producers is to cover all producers, both members and non-members, broken down by province.

After the abovementioned list has been published, producer organizations may submit applications to AIMA to manage their members' quotas.

Immediately thereafter, AIMA is to publish a further list of all producers, broken down by province, showing individual member producers under the organization to which they belong.

This second list will be updated and published by 31 January each year for use in the following milk year.

The lists are to be forwarded to the regional authorities, which are to make them available immediately to operators at their premises in each provincial capital.

In addition to providing various types of services to their members, under the milk quota arrangements producer organizations are responsible solely for balancing out the surpluses and shortfalls produced by their members at the end of the milk year.

They do not claim to have any power over the quotas of members, who remain the sole persons entitled thereto and the sole parties responsible for them.

The collection of the levy is essentially the responsibility of the purchaser.

Using the abovementioned lists, the latter must verify deliveries from each supplier and when the producer exceeds his reference quantity, the purchaser must immediately withhold an amount per litre of milk equal to the additional levy in force.

Amounts are withheld by the purchaser from payments to producers, be they members or not, and are paid after the end of the milk year.

When making payments in respect of member producers, the purchaser must take account of balancing out effected by producer organizations.

The Law specifies that the quota belongs to the producer as manager of an agricultural holding.

In accordance with the possibilities afforded by Community regulations on milk quotas, recently approved by the Council meeting on agriculture, Law No 468/92 provides that milk quotas may be leased or transferred without this implying the simultaneous leasing or transfer of the holding where production takes place.

The Law provides for a series of penalties to which the various parties involved in the quota arrangements are subject where they fail to comply with its provisions.

Checks on the system are largely the responsibility of the regions, which receive all data necessary to verify the correct application of the regulations as regards purchasers, producer organizations and producers.

Checks may also be conducted by AIMA, the judicial police authorities and the Central Fraud Prevention Inspectorate of the Ministry of Agriculture.

As regards direct sales, the producer himself is required to pay the levy due directly, and in the case of member producers, payment is made through the organization after balancing out between the shortfalls and surpluses produced.

Lastly, Law No 468/92 provides that supplementary rules for its application are to be adopted within four months of its entry into force.

Application of the Law - Lists of producers

Article 2(1) of the Law provides that within 30 days of its entry into force, i.e. by 18 January 1993, AIMA is to publish lists of producers and forward them to the regional authorities, which are to make them available to operators at their premises in each provincial capital.

This first list is to include all producers entitled to a reference quantity, by province, showing the relevant quotas.

No distinction is made between producers who are members of a producer organization and non-members.

The list, which has already been prepared and forwarded to the regions within the time limits laid down by the Law, shows:

1. Non-member producers who produced in 1983 and who took part in the survey provided for in the Ministerial Decree of 30 September 1985. Such producers were allocated reference quantities shown in the Annex to the Ministerial Decree of 26 May 1992, published in the ordinary supplement to Official Gazette No 130 of 4 June 1992. The list of non-member producers was updated subsequently to take account of changes occurring in the period elapsing between the commencement of the 1992/93 milk year and the entry into force of Law No 468/92 (19 December 1992);
2. Producers belonging to producer organizations who produced in the 1988/89 milk year. These were allocated A quotas equal to production in the 1988/89 milk year and possibly B quotas equal to the amount by which production in 1991/92 exceeded that in 1988/89.

Given the high number of producers involved, the possibility cannot be ruled out that the abovementioned list still contains certain errors or inaccuracies due to a failure to record sales of holdings, successions and the like.

A series of checks is being carried out at present to weed out any possible mistakes.

To that end, last December lists of producers were forwarded to the organizations concerned for the requisite corrections.

At present the lists are being returned to the organizations with corrections.

All producers who have taken part in the programmes for the discontinuation of milk production implemented in Italy to date have naturally been deleted from the lists even if they were producing in the 1988/89 milk year.

Applications from organizations to manage their members' reference quantities must reach AIMA by 17 February 1993.

To that end an application form has been prepared for the purpose. It must be accompanied by a list of members with the relevant identifying data.

AIMA will conduct all checks necessary on applications submitted by organizations.

A second list of producers taking account of applications for authorization of management by organizations is thus scheduled to be published in early March.

The abovementioned list will be printed by AIMA and forwarded to the regions for consultation by operators at their premises in each provincial capital.

This second list will show member producers grouped by organization and will also take account of all corrections forwarded to AIMA in the meanwhile.

The lists will thus be made available to purchasers and producers before the beginning of the 1993/94 milk year.

As mentioned above, the first list is of necessity provisional in nature and includes 169 000 producers entitled to a quota covering a total of 11.95 million tonnes in reference quantities allocated.

To sum up, the allocation of individual quotas is being undertaken in accordance with the time limits and rules laid down by the Law.

Detailed rules for implementing Law No 468/92

The Law as it stands is sufficient to start operations required for the commencement of the 1993/94 milk year.

It contains all the provisions necessary to allocate quotas and publish the lists.

However, for certain procedures which need to be carried out during the milk year and for checks thereon, it has been necessary to prepare provisions containing implementing rules.

These implementing rules are intended to cover secondary aspects of the milk quota system and accordingly do not prevent the Law from applying immediately.

The Regulation, laying down those rules to be adopted within four months from the entry into force of Law No 468/92, has already been drafted and consultations are under way on the subject with the bodies assigned responsibility for checks and with the main parties subject to the procedures laid down with a view to ensuring that the system is fully effective and complies as much as possible with the practical requirements of those parties.

In particular, the draft Regulation regulates in detail the requirements of producers, purchasers and organizations, and introduces further provisions in addition to those laid down by Law No 468/92, with a view to more efficient checks by inspection bodies.

To that end there is provision for a computerized, standardized system enabling checks, including cross-checks, to be conducted on data by means of specific data-processing procedures.

It will accordingly be easy to detect any possible infringements punishable by severe penalties under Law No 468/92.

Further detailed rules on the keeping of accounts have been laid down to ensure that purchasers apply the system in all points.

For that purpose there is provision for a special register, to be endorsed, indicating in particular the fat content of milk from each producer.

In addition, purchasers are required to take two samples each month from milk delivered by each producer to calculate its fat content.



With a view to calculating any levy due, the purchaser must work out the average fat content of milk delivered over the period concerned by each producer.

Special attention has been paid to the wording of the provisions on direct sales.

There is thus provision for careful checking of declarations which producers must forward in accordance with Law No 468/92.

Checks involve verifying records held for tax purposes or commercial documents to see whether the figures tally with data contained in the abovementioned declarations concerning quantities of milk or milk equivalent sold directly.

Checks relating to producers exempt under the provisions in force from the obligation on keeping the abovementioned documents are aimed at ascertaining whether the number of dairy cattle on the holding tallies with the quantity of milk sold as given in the declaration.

#### Discontinuation of milk production - 1992

As mentioned above, at the Council meeting on agriculture in Brussels on 14 and 15 July 1992, the Italian delegation outlined the measures which the Italian authorities intended introducing to bring milk production within the limits laid down by the Community.

At that time it was pointed out that milk production would have to be reduced by a total of approximately 1 600 000 tonnes in Italy over three milk years as set out below:

1992/93 milk year:	300 000 tonnes
1993/94 milk year:	650 000 tonnes
1994/95 milk year:	650 000 tonnes

In order to implement the programme to reduce milk production, Law No 468/92 provides explicitly for the Ministry of Agriculture and Forestry to issue a decree setting out the general criteria to be followed to bring quantities allocated to individual Italian producers into line with Italy's reference quantities over three years (Article 2(8)).

The programme will be implemented by AIMA, which may make use of production discontinuation programmes involving compensation or may reduce B quotas without paying any compensation (Article 2(9)).

With regard to the projected reduction of 300 000 tonnes during the current milk year, it should be pointed out that a production discontinuation programme in accordance with Regulation (EEC) No 1637/91 has already been completed and compensation paid to a large extent.

That Regulation, which was adopted to allow the Member States to bring within the limits reference quantities, which were reduced by 2% for the 1991/92 milk year, specified that the production discontinuation programme financed by the Community was to be completed by 31 March 1992.

The operation could cover up to 3% of the national guaranteed quantity, which in the case of Italy was around 270 000 tonnes.

By the Decree of the Minister for Agriculture and Forestry of 20 October 1991, the Italian authorities adopted measures for the application of Regulation (EEC) No 1637/91 so permitting Italian producers to benefit under the Community programme.

Subsequently, Regulation (EEC) No 1637/91 was amended by Regulation (EEC) No 1188/92 to permit the Member States to extend the programme for the discontinuation of milk production to 30 September 1992.

At 15 November 1991, the closing date for submission of applications laid down by the Ministerial Decree of 29 October 1991, applications from producers numbered approximately 11 500, covering a total of approximately 970 000 tonnes milk.

Of that number, 6 963 applications were approved from producers who at 30 September 1992 had abandoned production quotas totalling 285 860 tonnes (equal to approximately 320 000 tonnes actual production).

The objective of reducing production by around 300 000 tonnes in the 1992/93 milk year was thus clearly attained.

The expiry dates for the subsequent production discontinuation programmes to be implemented in the two forthcoming milk years must coincide with the termination of the milk year to permit measures relating to the additional levy to be applied more effectively.

The next milk production discontinuation programme will therefore probably expire on 31 March 1994.

Actual reductions covered by the programme may vary depending on the real needs, which will be assessed more accurately after the commencement of the milk year, without prejudice to the objective, which consists in reducing the overall quantities allocated to producers within the time limit laid down by the Council Decision of last December.

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