COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 18.06.1996
COM(96) 285 final

96/0162 (CNS)

Proposal for a

COUNCIL REGULATION (EC)

derogating from Regulation (EEC) No 1765/92 establishing a support system for producers of certain arable crops as regards the set-aside requirement for the 1997/98 marketing year

(presented by the Commission)

EXPLANATORY MEMORANDUM

In order to qualify for compensation for arable crops under the reform of the common agricultural policy, producers participating in the general scheme must set aside a percentage of their arable land with a view to achieving a balance between Community production and foreseeable outlets. Small producers, on the other hand, can opt for a simplified scheme under which they are dispensed from the set-aside requirement.

The set-aside rate for the 1996 harvest is 10% both for rotational set-aside and for other forms.

As part of the 1996/97 price package, the Commission has proposed that there should no longer be a distinction between rotational set-aside and other forms of set-aside and that the basic rate be set at 18%. However, the Commission has already stated that it intends derogating from this rate for cereals being sown for the 1997 harvest.

Stocks on the world market are currently at an all-time low, mainly as a result of the unfavourable weather which affected the 1995 cereals crop in the principal producer countries. In the Community, production in the southern areas has been particularly hard hit by drought.

The present level of stocks worldwide and in the Community together with unfavourable weather conditions in the United States, which are chiefly affecting its production potential for wheat and hence its export prospects throughout the whole of 1996/97, has led to an extremely volatile price situation with prices running at very high levels, aggravated by speculation.

This has had a knock-on effect on market prices for other cereals and has encouraged those holding cereals in the Community to maintain some of their stocks throughout 1995/96.

In these circumstances and at the request of the Council, the Commission has made use of the market management tools available to it, including the sale of stocks from public storage and controls on exports, to ensure that the Community market obtains supplies at prices which are more in line with the market organization in cereals and the reform objectives. Intervention stocks have fallen, therefore, from 7 million tonnes in early 1995/96 to 3.5 million tonnes at present, almost all of them consisting of barley and rye.

Higher prices on the world market and in the Community have forced the Commission to impose a charge on exports and have raised appreciably the prices for cereal substitutes in animal feed, resulting in much greater use of Community cereals.

Initial, extremely provisional estimates of the Community harvest for 1996/97 put production at around 187 million tonnes on an area sown to cereals of some 37 million hectares.

In the light of the world market situation described above, Community consumption of cereals during the 1996/97 marketing year is expected to be above 162 million tonnes. The crisis in the beef sector and the preference shown by consumers for poultrymeat and pigmeat, sectors that traditionally have overtaken beef in the consumption of cereals, may raise this consumption further.

In performing its role of traditional exporter in order to contribute to greater world market stability, the Community is likely to end 1996/97 with very small carry-over stocks.

In these circumstances, and in the interests of security of supplies given the weather hazards facing the production of arable crops, steps should be taken to increase production potential temporarily, without however undermining the aim of controlling production by allowing an excessive build-up of public stocks and without making it harder to find alternative outlets for arable crops in industrial uses.

A set-aside rate of 5% for cereals sown for 1997/98 seems appropriate therefore. It will be necessary then to adjust the increase in the set-aside percentage to be applied in the event of a transfer by lowering it to 1%.

In presenting this proposal for a rate of set-aside which is far below the proposed 18% single rate, the Commissin wishes to stress that it remains firmly attached to the principle of the 1992 reform of the arable regime. It recalls, however, that the Regulation (EEC) N° 1765/92 which instituted this reform in its article 15 provides that the rate of set-aside as well as compensatory payments and compensation for set aside may be changed according to the procedure laid down in Article 43 (2) of the Treaty in the light of developments in prodution, productivity and markets. The present proposal is limited to set aside but the Commission reserves the right to make proposals on compensatory payments and set aside compensation as and when appropriate.

proposal for a

COUNCIL REGULATION (EC) No /96

derogating from Regulation (EEC) No 1765/92 establishing a support system for producers of certain arable crops as regards the set-aside requirement for the 1997/98 marketing year

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Articles 42 and 43 thereof,

Having regard to the proposal from the Commission[1],

Having regard to the opinion of the European Parliament[2],

Whereas the support system for producers of certain arable crops introduced by Regulation (EEC) No 1765/92[3], as last amended by Regulation (EC) No .../96[4], provides that, in order to qualify for compensatory payments under the general scheme, producers must set aside a predetermined percentage of their arable land; whereas this percentage is to be reviewed to take account of production and market developments;

Whereas, since the introduction of this system, the cereals market has achieved a better balance as a result of a reduction in production and an increase in Community consumption; whereas this situation, together with the very low level of stocks and very firm prices on the world market, has resulted in a significant reduction in stocks and a sharp rise in the prices for cereals on the Community market;

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1 OJ No C

2 OJ No C

3 OJ No L 181, 1.7.1992, p. 12.

4 OJ No L ...

Whereas the present market situation for cereals is threatening to undermine, in the short term, the Community's presence on the world market and to jeopardize some of the results achieved since the reform of the arable sector, in particular the continuing rise in the consumption of cereals in animal feed; whereas the rate for set-aside beginning not later than 15 January 1997 should therefore be set for the 1997/98 marketing year at a level lower than that resulting from the provisions in force;

Whereas in the event of a transfer of the set-aside requirement, the basic 18% set-aside rate is increased by 3%; whereas this increase should be adjusted in order to maintain the same ratio between the basic rate and the percentage increase due on transfer, as a result of the drop in the basic rate,

HAS ADOPTED THIS REGULATION:

Article 1

For the 1997/98 marketing year, notwithstanding Article 7 of Regulation (EEC) No 1765/92,

- the set-aside requirement referred to in paragraph 1 is set at 5%;

- the increase referred to in the second indent of paragraph 7 is set at one percentage point.

Article 2

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

It shall apply to set-aside for the 1997/98 marketing year only.

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

Done at Brussels, For the Council

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FINANCIAL STATEMENT

DATE: 11/6/1996

1.	BUDGET HEADING: B1-10	APPROPRIATIONS: ECU 17.185 m
2.	TITLE: Proposal for a Council Regulation derogating, as regards the obligation to set aside land for the 1997/98 marketing year, from Regulation (EEC) No 1765/92 establishing a support system for producers of certain arable crops	
3.	LEGAL BASIS: Articles 42 and 43 of the Treaty	
4.	AIMS OF PROJECT: To fix the set-aside rate at 5%	

5.	FINANCIAL IMPLICATIONS	PERIOD OF 12 MONTHS million ecu	CURRENT FINANCIAL YEAR (96) million ecu	FOLLOWING FINANCIAL YEAR (97) million ecu
5.0.	EXPENDITURE - CHARGED TO THE EC BUDGET (REFUNDS/INTERVENTION) - NATIONAL ADMINISTRATION - OTHER	81.6	-	-
5.1.	REVENUE - OWN RESOURCES OF THE EC (LEVIES/CUSTOMS DUTIES) - NATIONAL	-		

		1998	1999	2000	2001
5.0.1. 5.1.1.	ESTIMATED EXPENDITURE ESTIMATED REVENUE	50.9	30.7	-	-

5.2. METHOD OF CALCULATION:

SEE ANNEX

6.0.	CAN THE PROJECT BE FINANCED FROM APPROPRIATIONS ENTERED IN THE RELEVANT CHAPTER OF THE CURRENT BUDGET?	YES/~~NO~~
6.1.	CAN THE PROJECT BE FINANCED BY TRANSFER BETWEEN CHAPTERS OF THE CURRENT BUDGET?	YES/~~NO~~
6.2.	IS A SUPPLEMENTARY BUDGET NECESSARY?	~~YES~~/NO
6.3.	WILL FUTURE BUDGET APPROPRIATIONS BE NECESSARY?	YES/~~NO~~

OBSERVATIONS:

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ANNEX TO FINANCIAL NOTE

The cost evaluation is based on the current situation (10% set-aside rate)

1. SAVINGS IN AID PER HECTARE

The 5 point drop in the rate of set-aside liberates an area estimated at 1.7 million ha. The historic average yield is 4.84 t/ha, the aid amounts to ECU 68.83 per tonne for set-aside land and ECU 54.34 per tonne for land under cereals. It is assumed that all the liberated land will be under cereals.

Savings: 1.7 million ha x (54.34 - 68.83) ECU/t x 4.84 t/ha = - ECU 119.2 million
These savings are chargeable in their entirety to the 1998 financial year.

2. EXPENDITURE ON THE DISPOSAL OF CEREALS

It is estimated that the 1.7 million ha can be allocated as follows:

Soft wheat:	0.6 million ha (yield = 6.05 t/ha)
Barley:	1.0 million ha (yield = 4.12 t/ha)
Maize:	0.1 million ha (yield = 7.60 t/ha)

On the basis of the refunds used in the PDB, the disposal cost for these quantities produced is as follows:

Soft wheat:	0.6 million ha x 6.05 t/ha x ECU 4.25/t =		ECU 15.4 million
Barley:	1.0 million ha x 4.12 t/ha x ECU 39.35/t=		ECU 162.1 million
Maize:	0.1 million ha x 7.60 t/ha x ECU 27.65/t=		ECU 21.0 million
		TOTAL	ECU 198.5 million

85% of the cost (ECU 168.7 million) is chargeable to the 1998 financial year.
The balance (ECU) 29.8 million) is chargeable to the 1999 financial year.

3. NET COST OF THE MEASURE

In relation to the budget cost for the 1996/97 financial year, the fixing of a 5% set-aside rate results in an additional cost:

for 1998 of:	(168.7 - 119.2) x 1.029 (DT)	= ECU 50.9 million
and for 1999 of	29.8 x 1.029 (DT)	= ECU 30.7 million

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DOCUMENTS

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