



COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT FROM THE COMMISSION TO THE COUNCIL

on the quota system for the production of potato starch

Proposal for a
COUNCIL REGULATION (EC)

amending Regulation (EC) No 1868/94 establishing a quota system
in relation to the production of potato starch

(presented by the Commission)

**REPORT FROM THE COMMISSION TO THE COUNCIL
ON THE QUOTA SYSTEM FOR THE PRODUCTION
OF POTATO STARCH**

1. INTRODUCTION: The need for the Report

Article 3(1) of Council Regulation (EC) No 1868/94¹ stipulates that on or before 31 October 1997 the Commission must present to the Council a report on the allocation of quota within the Community, accompanied if necessary by appropriate proposals. The report must take account of the development of the potato-starch market as well as that of the cereal-starch market.

Article 3(2) of Council Regulation (EC) No 1868/94 stipulates that on or before 30 November 1997 and thereafter at three-yearly intervals the Council, acting on the basis of Article 43 of the Treaty, must allocate quota between Member States on the basis of the report referred to in Article 3(1).

Quotas were established for the 1995/96, 1996/97 and 1997/98 marketing years for the following Member States: Denmark, Germany, Spain, France and the Netherlands.

The expansion of the Union on 1 January 1995 required the amendment of Regulation (EC) No 1868/94² so as to grant quotas to Austria, Finland and Sweden, the three new Member States all being potato-starch producers.

2. The quota system

Council Regulation (EEC) No 1543/93 fixing the amount of the premium paid to producers of potato starch during the 1993/94, 1994/95 and 1995/96 marketing years³ provided for the Council to decide what measures to take if the production of potato starch within the Community exceeded 1.5 million tonnes in the 1993/94 or 1994/95 marketing year.

Production in 1993/94 did in fact exceed that figure. As a result the Council decided, in July 1994, to introduce a quota system for the production of potato starch so as to restrict the amount of Community potato-starch production eligible for Community aid, while taking account of the fact that the potato starch sector is not subject to the restrictions on production, and in particular set-aside, applying in the cereals sector. In addition, the product does not come under the support system for producers of certain arable crops.

¹ OJ No L 197, 30.7.1994, p. 4.

² Regulation (EC) No 1863/95 (OJ No L 179, 29.7.1995, p. 1).

³ OJ No L 154, 25.6.1993, p. 4.

Originally, quotas were allocated to producer Member States in the Community of 12 on the basis of the average amount of starch produced by those countries during the 1990/91, 1991/92 and 1992/93 marketing years for which a premium had been paid; the quotas were subject to a proportional adjustment so as to obtain a total Community quota of 1.5 million tonnes.

One exception was Germany, for which the selected reference period was 1992/93 because of restructuring of agricultural production in the new Länder as a result of unification. In addition, the Council deemed it necessary to increase the quantity resulting from the choice of that reference period (501 717 tonnes) by 90 000 tonnes.

Also, an additional reserve of 110 000 tonnes was created for Germany to cover production in 1996/97 in that country resulting from irreversible investments made before 31 January 1994.

Lastly, the Council decided to grant a quota of 2 000 tonnes to Spain after that country was also judged to be a starch producer.

The total amount of quotas allocated to the Community of 12, taking account of the German reserve, was a maximum 1 702 000 tonnes compared to the quota of 1 500 000 tonnes initially proposed by the Commission.

For the Community of 15, the quota system was expanded to cover Austria, Finland and Sweden on the basis of the quantity of potato starch produced by undertakings in the new Member States during the 1993 calendar year for which state aid was paid.

However, in 1995 the Council decided to increase by 11 000 tonnes the Commission's initial proposal; this made the total amount of Community quotas for the enlarged Union 1 759 750 tonnes without the German reserve and a maximum 1 869 750 tonnes with it.

The resulting total national quotas were distributed by each Member State to existing starch-producing undertakings for use in the 1995/96, 1996/97 and 1997/98 marketing years. Where necessary, account was taken of investments carried out by the undertakings before 31 January 1994.

The purpose of the system is solely to cover potato starch production eligible for Community assistance; starch obtained without assistance (for example, as a by-product) is excluded from the quota system.

The management tools in force before 1992 have been retained under the quota system, having been adapted to take account of the CAP reform. They are:

- the minimum potato price: This price is equivalent to the price of cereals, in particular maize (indicative October price); the price has fallen at the rate set by the reform, so that, after agrimonetary correction, it was ECU 209.78 per tonne of potato starch from 1 July 1995 on.

- the compensatory payment to farmers: This is granted to producers of potatoes intended for starch production. It is applied to the quantity of potatoes required to produce one tonne of starch and was set at ECU 86.94 on the same date.
- the special starch producer's premium: Introduced about 20 years ago, the premium was set at ECU 22.25 per tonne of starch; it is paid to starch-producing undertakings for the quantity of starch corresponding to their quota provided that the minimum price is paid to the farmer. It was intended to offset certain structural disadvantages in the starch industry, in particular special anti-pollution investments, the lack of by-products and the seasonal nature of production.

The rules also include a compulsory system of cultivation contracts between potato growers and starch producers. The compensatory payment and the starch-producer's premium are only granted within the strict quota limit, with the exception of a 5% degree of flexibility allowing a starch producer to exceed his quota by a maximum of that percentage provided that the quota for the following marketing year is reduced accordingly.

Lastly, any starch produced in excess of quota, plus the 5% flexibility, must be exported as such from the Community before 1 January of the following marketing year without being eligible for any compensation, premium or export refund.

The Commission's detailed implementing rules are set out in Regulation (EC) No 97/95⁴ which explains various matters, such as the subject of cultivation contracts, the minimum starch content, verification and penalties relating to it, rules relating to exports without refund and penalties for non-compliance, rules applicable to mergers, changes of ownership and the commencement or termination of commercial activities by starch-producing undertakings.

3. Operation of the quota system: report and future prospects

3.1. Report on 1995/96 and 1996/97 marketing years

⁴ OJ No L 16, 24.1.1995, p. 3.

Table 1 shows quotas allocated and production during the 1995/96 and 1996/97 marketing years.

Table 1 **Quotas and starch production for which aid was granted**
(tonnes)

Member State	Basic quota	Production 1995/96	Available quota 1996/97	Production 1996/97 ³
Denmark	178 460	154 312	178 460	183 114 ²
Germany	591 717	498 067	591 717	} 710 005 ²
. quota	110 000 ¹		104 554 ¹	
. reserve 96/97				
Spain	2 000	-	2 000	-
France	281 516	250 967	281 516	269 704
Netherlands	538 307	543 905 ²	532 709	535 289 ²
Austria	49 100	29 412	49 100	48 100
Finland	54 750	54 851 ²	54 577	57 315 ²
Sweden	63 900	46 470	63 900	58 720
Sub-total (without reserve)	1 759 750	1 577 984	1 753 979	
Reserve	110 000		104 554	
TOTAL	1 869 750	1 577 984	1 858 533	1 862 247
Expenditure		ECU 177.1 million		ECU 205 million*

¹ 104 554 t out of 110 000 were allocated.

² Including the maximum 5% flexibility, not including quantities exported without refund.

³ Including German reserve.

Source: Member State communications.

* Estimate based on 1997 budget year expenditure up to August 1997.

During the 1995/96 marketing year overall production was below the quota level (90%) as a result of average to poor weather conditions.

At Member State level, the Netherlands exceeded the quantity of starch produced under Annex II to Regulation (EC) No 97/95 by 1.046%, still less than the maximum 5% allowed under the flexibility clause in Article 6(2) of Regulation (EC) No 1868/94, and Finland exceeded it by 0.184%.

In the 1996/97 marketing year total production was 0.2% above the overall quota (including the German reserve and corrected to take account of the overruns in 1995/96); quotas were exceeded in Denmark, Germany, Finland and the Netherlands. In the other producer Member States there was an increase which stayed within the quota limit. This was the result of particularly good weather conditions in summer 1996 which increased per hectare potato yields and also increased potatoes' average starch content.

In 1996/97 some starch-producing undertakings which had exhausted their quotas even after partly using up the 5% flexibility, chose to export quantities of starch without refund and without compensation or premium before 1 January 1998 (Germany 11 118 tonnes, Finland 3 048 tonnes).

3.2. Treatment of the German reserve

For the 1996/97 marketing year Germany was authorised to use the reserve of up to 110 000 t on condition that:

- its initial quota was fully allocated in accordance with Article 2 of Regulation (EC) No 97/95 no later than 8 March 1995,
- the sub-quotas which became available after 8 March as a result of the cessation of trading were fully utilised before 31 March 1996,
- the reserve was used only in respect of irreversible investments made before 31 January 1994 in conformity with the conditions laid down.

On the basis of information supplied by the German authorities, the Commission had no reason to doubt that the conditions had been satisfied.

Taking account of these now completed investments the German authorities distributed an additional quota of 104 554 tonnes of starch.

In fact, the starch-producing undertakings concerned produced more starch in 1996/97 than their basic quota plus the quantities allocated from the reserve.

3.3. Development of the cereal and non-cereal starch market

The starch product industry covers three main activities: maize starch, wheat starch and potato starch. Apart from those three production sources, there are the following forms of production for special and marginal applications: rice starch (using broken rice), barley starch in Sweden and Finland, which is in decline to

the benefit of wheat starch, and, to a lesser extent (for experimental research) oats starch.

The industry manufactures unprocessed and modified starches, hydrolysis products (glucose) and products produced after the crystallisation, isomerisation and fermentation of hydrolysates.

It remains to be seen to what extent the allocated quota quantities can be absorbed by the cereal and potato starch market, which has been expanding by some 2-3% per year. Industry sources state that there were no difficulties in the 1995/96 marketing year in selling at relatively high prices and relatively low year end stocks. During the 1996/97 marketing year cereal and potato starch availability was greater than in the previous year (potato starch: some 30 000 tonnes more) and this led to a levelling-off of prices. Larger quantities of the starches were exported with refund: 385 000 tonnes of unprocessed non-cereal starch (67% more than in 1995/96) and 400 000 tonnes of cereal-based starch and glucose (40% more than in 1995/96). However, these quantities were lower than those exported during the 1994/95 marketing year (394 000 tonnes of non-cereal starch and 588 000 tonnes of cereal starch/glucose).

Table 2 Non-cereal and cereal starch exports (unprocessed product equivalent) ('000 t)

	Non-cereal starch	Maize/wheat starch	Total
1993/94	354	458	812
1994/95	394	588	982
1995/96	232	300	532
1996/97	384	417	801

Table 3 shows actual production of non-cereal and cereal starch and the quantities forecast for future years.

Table 3 **Production of cereal and non-cereal starch**
(million tonnes)

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99
Maize¹	3.4	3.6	3.6	3.6	3.7	3.4
Wheat¹	1.5	1.6	1.7	1.8	2.2	2.2
Barley/oats	0.05	0.05	0.05	0.05	0.05	0.05
Non-cereal	1.7	1.5	1.7 ³	2 ³	1.9	1.9 ²
TOTAL	6.65	6.75	7.05	7.45	7.85	7.55
Proportion of non-cereal starch as a %	25.6	22.2	24.1	26.8	24.2	25.2

¹ Source: AAC (Association des Amidonneries de Céréales de l'UE).

² Assuming no change for quota system.

³ Including non-quota production, in particular production losses not incurred.

Table 3 shows that production of non-cereal starch as a proportion of cereal starch went from 24.1% in 1995/96 to 26.8% in 1996/97. In future marketing years the proportion of non-cereal starch, assuming no change in quotas, should show a slight levelling-off in view of the likely increase in starch production based on wheat.

3.4. 5% flexibility

This is a flexibility of 5% in excess of the quota granted to starch-producing undertakings on condition that the quota for the following marketing year is reduced accordingly. Proposals to improve the clause have been put by the trade, mainly consisting in an increase in the percentage.

In 1995/96, a small number of undertakings used this facility, whereas in 1996/97 a larger number used it for a total of about 24 000 tonnes (1.3% of the total quota).

In 1995/96 no undertaking exceeded 105% of its quota. In 1996/97, four undertakings out of 16 did so, albeit for small quantities (a total of about 14 000 tonnes).

3.5. Agenda 2000

The Commission has just proposed an adjustment to the cereal prices and compensation arrangements as part of its Agenda 2000 proposals. It is also proposing to maintain the set-aside instrument, but at a level of 0%.

Since the non-cereal starch price and compensation arrangements have always been governed by the basic cereals Regulation (link to maize), the adjustment of those arrangements will follow the measures taken for maize as part of the Agenda 2000 decisions.

4. CONCLUSION

In view of the arguments put forward in this report, particularly with regard to the equilibrium in the internal cereal/non-cereal starch market coupled with the exports in the period under review, the Commission recommends no change in the size of quotas and renewal for three years of the current quotas as resulting from Regulation (EC) No 1868/94, except in the case of Germany whose reserve should be definitively included at a volume of 104 554 tonnes, thereby setting the new German quota at 696 271 tonnes.

However, if a disequilibrium occurs in the next three-year period between non-cereal starch production and outlets for it in the internal market, thus causing an appreciable increase in quantities exported with refund, the Commission reserves the right to propose to the Council an adjustment in the prevailing quotas.

where the percentage and rules of application of the flexibility clause are concerned, the commission also recommends no change, particularly since the improvement proposed by the trade is likely to lead to a maximising of production and therefore to an additional quantity for sale on a market already relatively saturated.

Proposal for a
COUNCIL REGULATION (EC)

**amending Regulation (EC) No 1868/94 establishing a quota system
in relation to the production of potato starch**

1. EXPLANATORY MEMORANDUM

The purpose of this Regulation is to amend Regulation (EC) No 1868/94 so as to allocate the three-year quota between starch producer Member States for the 1998/99, 1999/2000 and 2000/01 marketing years on the basis of the Commission's report to the Council on the quota system for potato starch.

This Regulation renews the existing quotas for three years, taking account of the definitive inclusion in the quota for Germany of the reserve of 104 554 tonnes referred to in the original second subparagraph of Article 2(1) of Regulation (EC) No 1868/94.

Where necessary, any amounts utilised in excess of quota by starch producers in the Member States under the flexibility clause in Article 6(2) during the 1997/98 marketing year will be taken into account.

Proposal for a
COUNCIL REGULATION (EC)

amending Regulation (EC) No 1868/94 establishing a quota system
in relation to the production of potato starch

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 Commission⁵,

Having regard to the opinion of the European Parliament⁶,

Having regard to the opinion of the Economic and Social Committee⁷,

Whereas Article 2 of Council Regulation (EC) No 1868/94⁸ of 27 July 1994, as last amended by Regulation (EC) No 1863/95⁹, fixes the potato starch quotas for producer Member States for the 1995/96, 1996/97 and 1997/98 marketing years;

Whereas Article 3(2) of Regulation (EC) No 1868/94 provides that the Council must allocate the three-year quota between the producer Member States on the basis of the Commission's report to the Council; whereas, to that end, the existing quotas should be renewed for three years taking account of the definitive inclusion in the quota for Germany of the reserve of 104 554 tonnes referred to in the second subparagraph of Article 2(1) of that Regulation;

Whereas the producer Member States should allocate their quotas for a period of three years between all undertakings producing potato starch on the basis of the quotas used for the 1995/96 marketing year, with the exception of Germany, for which account will be taken of the quota transfers resulting from mergers and supplementary quota allocations from the reserve made in 1997/98;

Whereas calculation of the sub-quotas to be used for each undertaking producing potato starch will take account of the possible use of the flexibility clause during the 1997/98 marketing year,

⁵ OJ No C

⁶ OJ No C

⁷ OJ No C

⁸ OJ No L 197, 30.7.1994, p. 4.

⁹ OJ No L 179, 29.7.1995, p. 1.

HAS ADOPTED THIS REGULATION:

Article 1

Article 2 of Regulation (EC) No 1868/94 shall be replaced by the following:

“Article 2

1. The following producer Member States are hereby allocated quotas for the production of potato starch within the following limits for the 1998/99, 1999/2000 and 2000/01 marketing years:

Denmark	178 460 tonnes
Germany	696 271 tonnes
Spain	2 000 tonnes
France	281 516 tonnes
Netherlands	538 307 tonnes
Austria	49 100 tonnes
Finland	54 750 tonnes
Sweden	63 900 tonnes

1 864 304 tonnes.

2. Each producer Member State shall allocate the quota referred to in paragraph 1 to undertakings producing potato starch for use in the 1998/99, 1999/2000 and 2000/01 marketing years on the basis of the sub-quotas used for the 1995/96 marketing year, with the exception of Germany, for which account shall be taken of transfers of sub-quotas as a result of mergers and of additional allocations of sub-quotas from the reserve made in 1997/98.

The sub-quotas used for each undertaking producing potato starch shall be adjusted to take account of any amount utilized in excess of quota during the 1997/98 marketing year under Article 6(2).”

Article 2

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

It shall apply from 1 July 1998.

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

Done at Brussels,

For the Council
The President

FINANCIAL STATEMENT

1. BUDGET HEADING: B1 - 1021 APPROPRIATIONS: ECU 182.6 million

2. TITLE:
Council Regulation amending Regulation (EC) No 1868/94 establishing a quota system in relation to the production of potato starch.

3. LEGAL BASIS: Articles 42 and 43 of the Treaty

4. AIMS:
To allocate the three-year quota between potato starch producing Member States for 1998/99, 1999/2000 and 2000/2001.

5. FINANCIAL IMPLICATIONS	PERIOD OF 12 MONTHS (ECU million)	CURRENT FINANCIAL YEAR (98) (ECU million)	FOLLOWING FINANCIAL YEAR (99) (ECU million)
5.0 EXPENDITURE - CHARGED TO THE EC BUDGET (REFUNDS/INTERVENTION) - NATIONAL AUTHORITIES - OTHER	-	-	205.4
5.1. REVENUE - OWN RESOURCES OF THE EC (LEVIES/CUSTOMS DUTIES) - NATIONAL	-	-	-
	2000 ECU million	2001 ECU million	2002 ECU million
5.0.1 ESTIMATED EXPENDITURE	205.4	205.4	
5.1.1 ESTIMATED REVENUE			2003 ECU million

5.2 METHOD OF CALCULATION:

Potato starch premium: 1 864 304 t x ECU 22.25/t x 1.009 (DR) = ECU 41.9 million
 Compensatory payment: 1 864 304 t x ECU 86.94/t x 1.009 (DR) = ECU 163.5 million
 ECU 205.4 million

Payments will commence in 1999.

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 WILL A SUPPLEMENTARY BUDGET BE NECESSARY?	YES/NO
6.3 WILL FUTURE BUDGET APPROPRIATIONS BE NECESSARY?	YES/NO

OBSERVATIONS:

The measure is restricted to the years 1998/99, 1999/2000 and 2000/2001.

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DOCUMENTS

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