# COMMISSION OF THE EUROPEAN COMMUNITIES

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## Report on the operation of the system of aid for cotton

(pursuant to Article 5 of Council Regulation (EEC) No 2052/92 )

Proposal for a

COUNCIL DECISION

adjusting, for the fifth time, the system of aid for cotton introduced by Protocol 4 annexed to the Act of Accession of Greece

Proposal for a

COUNCIL DECISION

**laying down the general rules for the system of aid for cotton and repealing Regulation (EEC) No 2169/81**

**(presented by the Commission)**

**Report on the operation of the**

**system of aid for cotton**

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CONTENTS

# 1. THE COTTON MARKET AND PRODUCTION STRUCTURES

## 1.1. Background

The cotton plant ("Gossypium") is grown as an annual plant in sufficiently hot regions. Its fruit is a capsule containing oilseeds surrounded by textile fibre. Ginning separates the seeds and fibres. The seed can then be pressed to extract the oil (edible) and to produce cake (for animal feed). The fibre (ginned cotton) is processed essentially by the textile industry.

## 1.2. The world market

Since the principal use of cotton is as textile fibre and there is no international trade in unginned cotton and that in cotton seed is insignificant, any analysis of the world market must concentrate on fibre (ginned cotton).

World area under cotton has varied between 30 and 34 million hectares since the beginning of the 1960s. World production of ginned cotton, on the other hand, has almost doubled in thirty years, reaching an average for the 1991/93 to 1993/94 marketing years of 18,5 million t. In September 1994, the USDA forecast that production in 1994/95 would be 18,8 million t.

The principal producer countries are China, the United States, India, Pakistan, and Ouzbekistan as can be seen from the following table (Community production is given for comparison).

Principal producer countries

| | Average 91/92-93/94 (mio t) | World share (%) | 1994/95 forecast (mio t) |
|---|---|---|---|
| China | 4.6 | 25 | 4.4 |
| United States | 3.6 | 20 | 4.1 |
| India | 2.2 | 12 | 2.3 |
| Pakistan | 1.7 | 9 | 1.6 |
| Ouzbekistan | 1.4 | 7 | 1.3 |
| European Union | 0.3 | 1.7 | 0.4 |
| Total of above | 13.8 | 75 | 14.1 |
| World total | 18.5 | 100 | 18.8 |

(Sources : USDA, DG VI for EU)

In the United States, the cotton belt extends from South Carolina to California. Cotton production is covered by a programme in the same way as wheat and maize. The figure fixed in the ARP ("Acreage Reduction Programme") for cotton in 1994 was 11%.

International trade in cotton is considerable, reaching 5,8 million t or 32% of world production (average 1991/92 to 1993/94). The principal exporters are the United States (23 % of the world market), Ouzbekistan (21 %), the countries of the African franc area (8 %), Australia (7 %) and Pakistan (4 %) and the main importers are the European Union, southeast Asia, Russia and Japan. China, the world's largest producer, alternates between being an importer and an exporter nation.

There is only one forward market for cotton and that, characteristically for the American situation, is in New York. However, the most widely used indicator of world prices is the Cotlook A index (Cotlook is a specialized information agency based in Liverpool). The index, expressed in US cents/pound is the average of the five lowest spot prices from a range of very varied, representative locations, CIF North Europe. It refers to a fibre 28 mm (1-3/32") long of grade no 5 - "white middling" (grade is an index of overall visual quality).

The world price for cotton is very volatile over any timescale. For example, the weekly average Cotlook A index varied between 52 and 86 cents/pound over the period from August 1992 to July 1994.

This volatility, more marked for cotton than for other agricultural raw materials, is explained by the hazards of trade but principally by the hazards of production: water supply (too much or too little), temperature, attacks by parasites are to a great extent matters of chance in many production regions.

## 1.3. Community production

### 1.3.1. Areas

Following the cessation of the very limited production in Italy, Greece and Spain are currently the only Member States producing cotton. Cotton is produced in those countries almost solely on irrigated land.

Changes in areas in those two Member States and total areas are shown in the graph on the following page (page i). Planting at Community level appeared to be under control during 1989 to 1991 after a peak in 1988, but began to grow again from 1992. The area under cotton in 1994 is estimated at 423 000 ha.

Developments in Greece and Spain diverge, at least from 1988. The area is growing in Greece, reaching 383 000 ha in 1994, although in Spain developments are irregular: a maximum of 135 000 ha in 1988, a minimum of 32 000 ha in 1993 and a slight increase to 40 000 ha in 1994. In the years 1993 and 1994, Spain suffered from water shortages during the sowing period, and irrigated crops were prohibited in certain areas. The basic trend, however, is a relative fall in the under cotton in Spain compared with that in Greece. Before accession, the average area in Spain was 54 700 ha (1983-85 average).

### 1.3.2. Yields

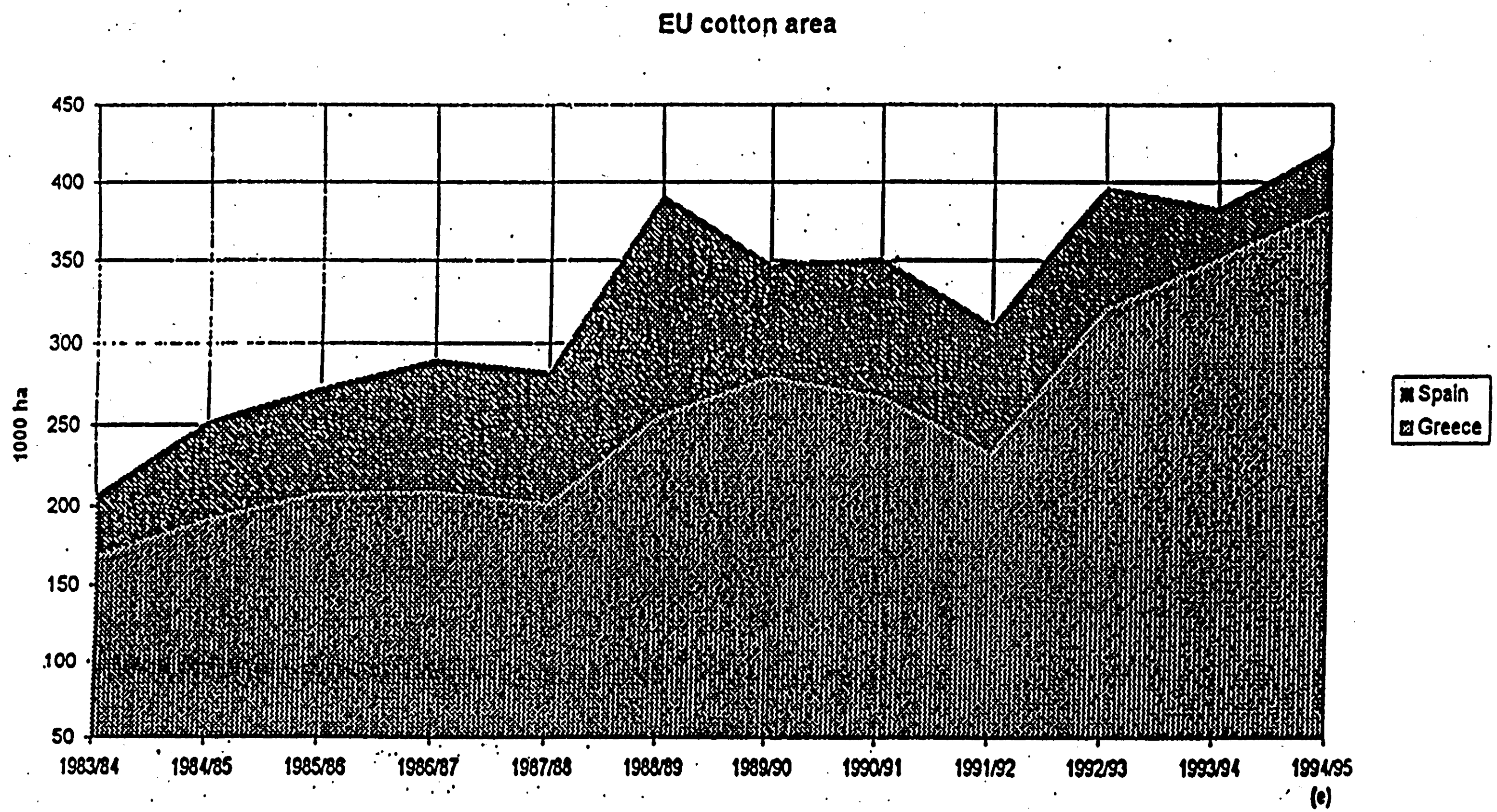
Unginned cotton yields show neither an upward nor a downward trend at national or community level. This can be seen in the graph given on the following page (page ii), showing developments since 1982. The average yields are given in the following table: clipped average - 1989 to 1993 (lowest and highest figures excluded).

**Average per hectare yields 1989-1993**
**(t/ha, unginned standard quality cotton)**

| | |
|---|---|
| Greece | 2.72 |
| Spain | 3.06 |
| E.U. | 2.80 |

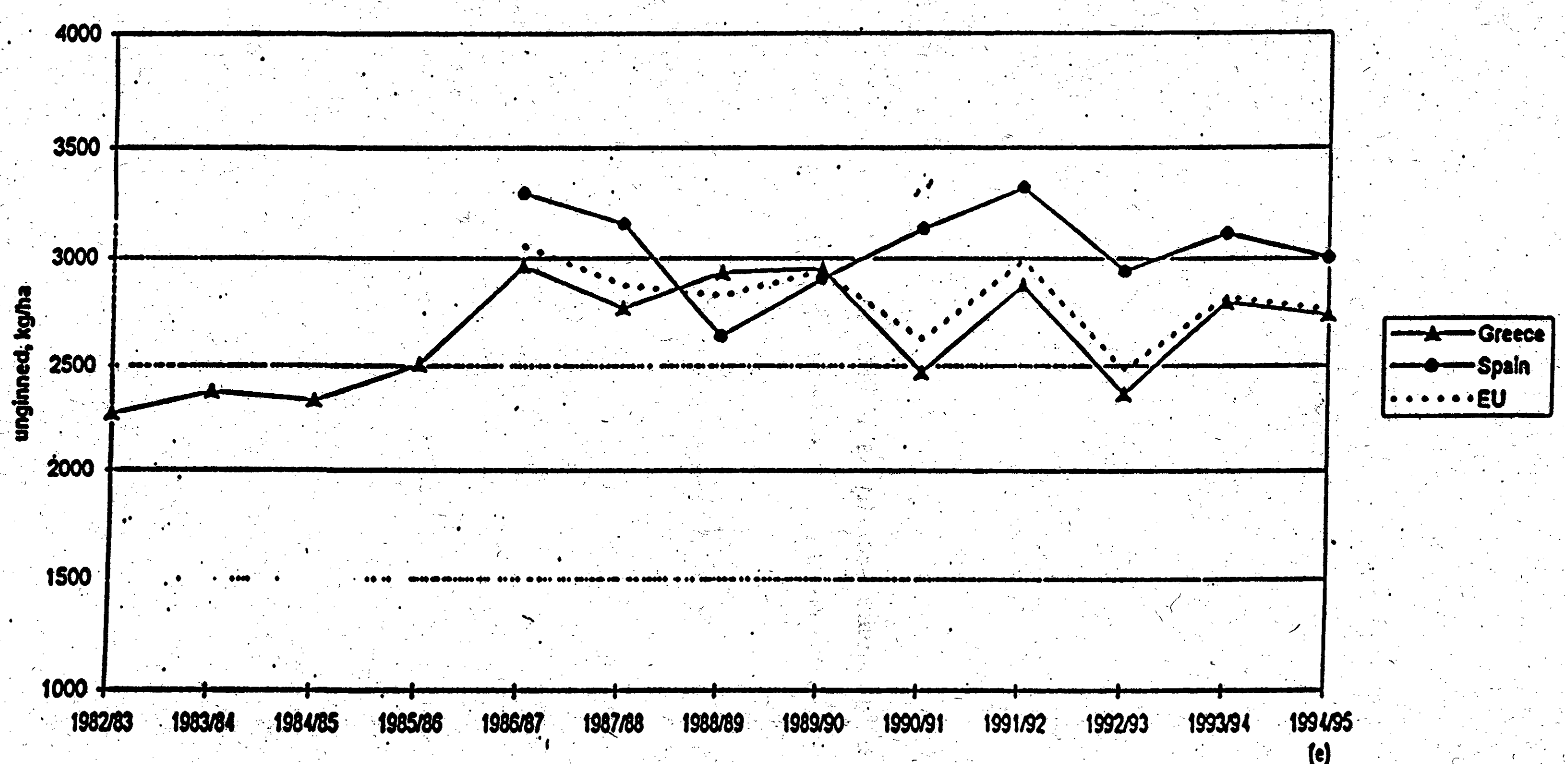
N.B. The standard quality used for calculation is that used since 1992/93: 3% impurities, 10% humidity.

The unginned cotton fibre and seed yields are very stable and are around 32 % and 54 % respectively both in Greece and Spain. The standard quality is based on these yields (see 3.1. on the price arrangements and aid).


EU cotton area
450
400
350
300
250
200
150
100
50
1000 ha
1983/84
1984/85
1985/86
1986/87
1987/88
1988/89
1989/90
1990/91
1991/92
1992/93
1993/94
1994/95 (e)
Spain
Greece

COTTON.XLS

EU cotton yield (standard quality)



1.3.3. <u>Production</u> (unginned cotton)

The remarks made regarding changes in areas apply mutatis mutandis to production as shown in the table given below:

- apparent control of community production during the years 1989 to 1991 after a peak in 1988, then a sharp increase in 1994 to a record level of 1 170 000 t ;

- developments diverge in Greece and Spain: almost continual increase in Greece, reaching 1 050 000 t in 1994, the decline in Spain being particularly marked over the last two years, with production of only 120 000 t in 1994 (it should be noted that yields were normal in 1993 and 1994 in Spain but areas were reduced owing to water shortages at the time of sowing - see 1.3.1.).

**COMMUNITY COTTON PRODUCTION(t)**
on the basis of the quantities eligible for aid in terms of standard quality
(10% humidity, 3% impurities)

| MARKET-ING YEAR | PRODUCT. GREECE | PRODUCT. SPAIN | PRODUCT. ITALIAN | TOTAL PRODUCT. |
|---|---|---|---|---|
| 1986/87 | 622754 | 265364 | 0 | 888118 |
| 1987/88 | 559963 | 256523 | 0 | 816486 |
| 1988/89 | 751521 | 357753 | 92 | 1109367 |
| 1989/90 | 827118 | 197332 | 27 | 1024477 |
| 1990/91 | 662008 | 262835 | 32 | 924875 |
| 1991/92 | 670940 | 260725 | 0 | 931665 |
| 1992/93 | 760685 | 223932 | 0 | 984617 |
| 1993/94 | 985676 | 98883 | 0 | 1084559 |
| 1994/95 (e) | 1050000 | 120070 | 0 | 1170070 |

1.3.4. **<u>Production - short-term forecasts</u>**

Short-term production forecasts were based on the following hypotheses, <u>assuming no change to the current support system</u>:

- stabilization of area in Spain at **80 000 ha** (normal water supply situation);
- continuation of the upward trend in areas in Greece (trend over the period 1986-94 under the stabilizer) ;
- use of the average historical yield over the period 1989-93 of 2,8 t/ha in the absence of any clear trend.

The relevance of these hypotheses will be explained later in the report, particularly in the microeconomic analysis and the analysis of the stabilizer system with cut-off.

Under these conditions, the community area down to cotton could increase from 423 000 ha in 1994 to 540 000 ha in 2000, an increase of 28 % ; production would increase from 1 170 000 t in 1994 to 1 520 000 t in 2000, an increase of 30 %. That would also mean an increase of 30 % in budgetary expenditure to almost ECU 1 billion (see 3.5.).

Leaving aside environmental problems (see 2.4.), such an increase, although large, is not impossible from the point of view of land use, since the main competing irrigated crops are on a downward trend: particularly maize, but also tobacco, fruit (particularly peaches) and vegetables. It also assumes adequate ginning capacity which would appear possible, even if only through extending the period of operation.

### 1.4. Community trade (ginned cotton)

The European Union has a significant shortfall in ginned cotton (fibre). Average imports over the period 1991-93 were 925 000 t and exports 107 000 t (source EUROSTAT-COMEXT). As production increases, however, the external trade balance is improving at the rate of 45 000 t per year, as shown in the graph on the next page (page iii).

The supply balance for the period 1991-93 (1990 production has been included in 1991, etc.) is given below.

**Supply balance for ginned cotton**
**1991-93 average**

| | (000 t) |
|---|---|
| **Production** | **296** |
| **Imports** | **925** |
| **Exports** | **107** |
| **Apparent consumption** | **1114** |

The average rate of self-sufficiency was therefore 27 % during the period 1991-93. It is increasing and should reach 45 % by 2000 if the production forecast (and budgetary expenditure) made above (see 1.3.4.) are accurate and per capita apparent consumption remains stable at 3 kg.

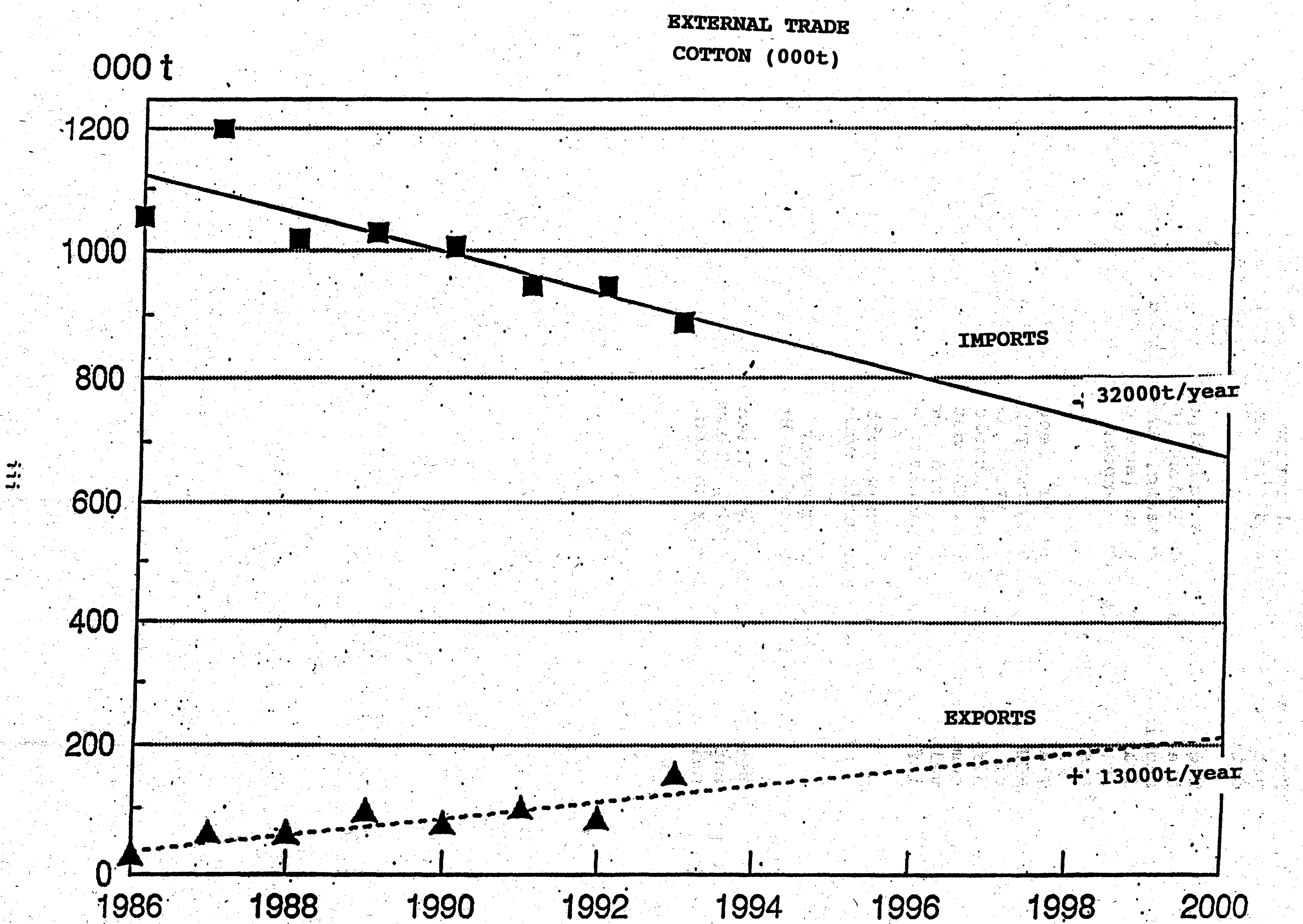
For reference, ginned cotton (CN code 5201 00, cotton, not carded or combed) is imported free from customs duties.

The European Union's principal external suppliers are the former Soviet Union (Ouzbekistan), from which supplies are increasing, the United States and the franc zone in Africa (see graph on next page, page iv). The principal export markets are Brazil and eastern Europe.

The average value of imports into the Union is ECU 1244/t (1991-93 average) while the average value of exports from the Union is ECU 1163/t. This slight difference reflects an absolutely correct valuation of community production. The detailed study of these unit values, by origin and destination, gives other information, in particular:

- American cotton exported to the European Union has a high unit value, reflecting its high quality;
- recently the poorest quality Community cotton has been exported to Brazil.

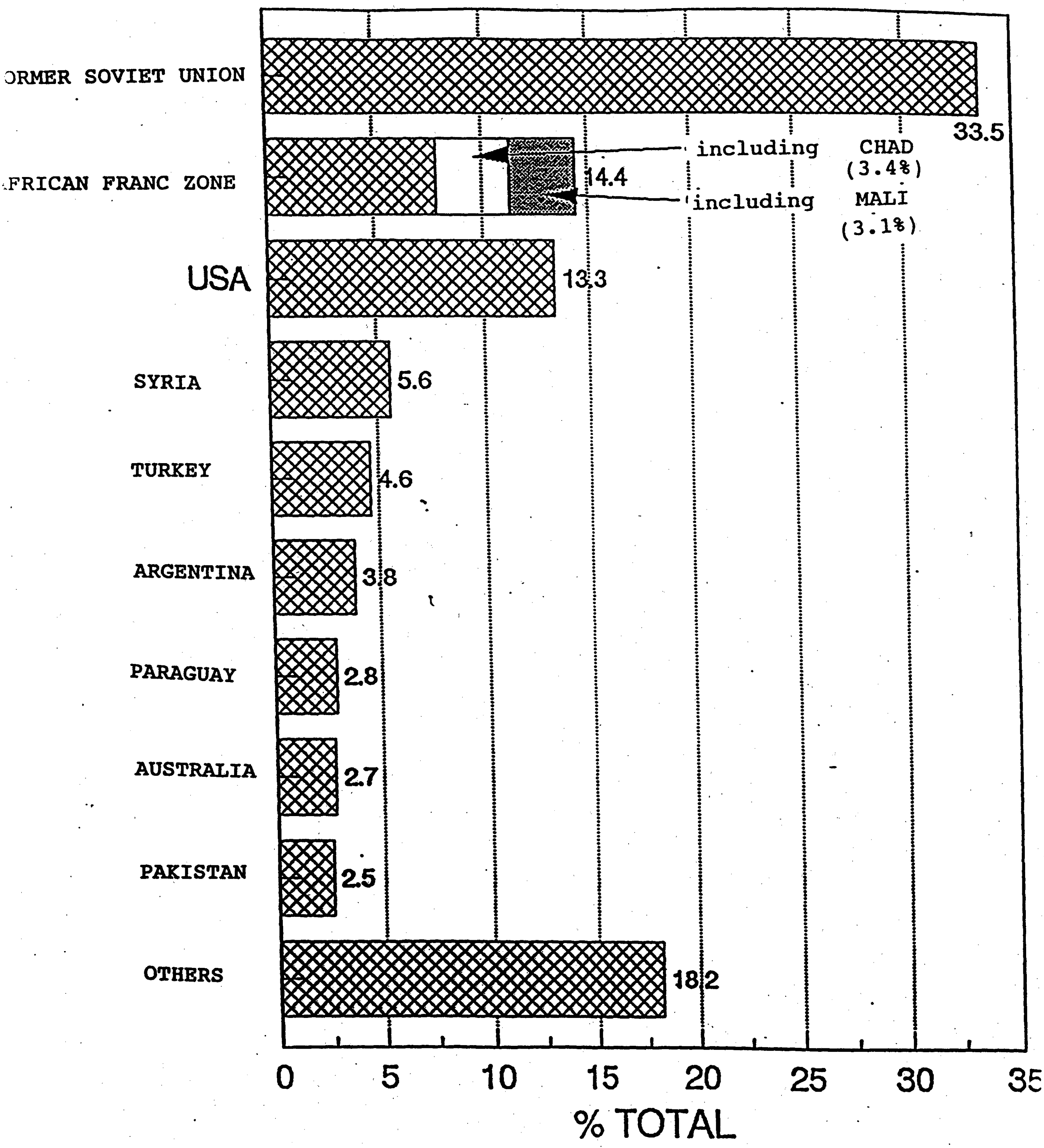
Within the Community, Greece is naturally the main supplier, while Italy, Germany and Portugal are the main purchaser Member States.



EXTERNAL TRADE
COTTON (000t)
000 t
1200
1000
800
600
400
200
0
1986
1988
1990
1992
1994
1996
1998
2000
IMPORTS
- 32000t/year
EXPORTS
+ 13000t/year

ORIGIN OF COTTON IMPORTS INTO THE COMMUNITY OF TWELVE

(average of 925 000 t in 1991-93)



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## 2. SOCIO-ECONOMIC ASPECTS

### 2.1. Economic importance and production regions

Although textile fibres (principally cotton, but also flax fibre) account for only a small percentage of final agricultual community production (0.5 %), they are of greater importance in the Member States and regions in which they are grown.

In Greece, cotton accounted for 9.3 % of final agricultural production in 1992, a figure comparable to that of olive oil. The figure is higher in the three large production regions (NUTS 2) :

- Thessaly ;
- Macedonia-Thrace (three NUTS 2 regions) ;
- Sterea Ellada

In Spain, the percentage is 0,9 % (1989-91 average) but rises to 3,9 % in Andalusia (NUTS 2), the main production region, while above Murcia and Valencia. Within Andalusia, production is mainly concentrated in the provinces (NUTS 3) of Séville (11,6 % of agricultural production) and Cordoba (5,6 %).

### 2.2. Production structures

The regular inquiry into structures does not provide specific information on cotton which is included in industrial crops. There are, however, two sources. They both pose certain problems but have the advantage of being to a certain extent complementary.

- statistics on the system of aid in favour of small producers: additional aid per hectare is paid to producers sowing less than 2,5 ha with cotton (see 3.3.); this special system has created, however, particularly in Greece, a growth of small producers which throws doubt on the statistical conclusions which can be drawn;

- FADN (Farm Accountancy Data Network) statistics, these only cover farms exceeding a minimum economic size, which reduces their scope as regards cotton.

There is also a considerable contrast in structures in Greece and Spain.

In Greece: there are said to be around 100 000 small cotton producers in the 1993/94 marketing year, accounting for 53 % of the area. It is highly probablethat this figure is too high owing to a division of applications for aid for small producers given that the area farmed by "small producers" has tripled in four years. The FADN (1989-91 average) shows 45 000 farms producing cotton with an average arable area of 4,3 ha and an average area under cotton of 2,5 ha, but this includes only 44% of Greek areas under cotton because of the minimum economic size criterion. Curiously, despite the fact that the figures refer to different years, the two sources cover almost the total area.

Structures in Greece are very small and highly specialized in cotton production.

FADN figures permit a more profound regional analysis in Greece. In the Sterea Ellada region, holdings producing cotton produce little else: cotton represents around five sixths of the arable land. In Thessaly there is also a trend towards single crop farming, with cotton representing an average of two thirds of the arable area of the holdings concerned. This trend is much less marked in Macedonia-Thrace, a large cotton production region but where maize dominates.

In Spain, more precisely, in Andalusia, the growth in the number of small producers remains small: 3 800 in 1993/94, accounting for 16 % of the area (as against 13 % on the introduction of the system). FADN figures (1989-91 average) show 11 000 holdings producing cotton, with an average arable area of 14 ha and an average area under cotton of 8,6 ha. FADN figures here include almost all the area under cotton. Structures are therefore significantly larger in Spain than in Greece, but specialization in cotton is also very strong.

## 2.3 Costs and margins

FADN figures up to 1991, permit a comparative analysis of competing regions and crops. The figures are given in the table on the next page (page v). An initial analysis has been made of the criterion - costs/cash margin, with cash costs covering specific costs and overheads, in particular harvest costs, but not depreciation or labour costs, whether waged or not. The figures given are 1989-91 averages and are expressed in trade ecus.

The margin is highest in Thessaly, at ECU 2200/ha. Cotton production in the region is much more profitable than that of maize, the main competing crop, for which the margin is around ECU 1700/ha. In Macedonia-Thrace, the margins for cotton and maize are ECU 1600/ha and ECU 1500 /ha respectively, and therefore much closer. This explains the structural differences between these two large production regions: specialization in cotton in Thessaly, dominance of maize in Macedonia-Thrace.

In Andalusia, cash margins are lower than in Greece at ECU 1400/ha for cotton and ECU 1100/ha for maize. Despite slightly higher yields, cotton, in absolute terms, is less profitable in Andalusia than in Thessaly and Macedonia-Thrace. This is due to higher production costs and a more favourable agromonetary situation in Greece than in Spain during the period examined. The relative level of cotton/maize margins, as in Greece, makes cotton more attractive and explains the preference of farmers for cotton when the water supply situation is suitable.

08.09.1994 (D:\DATA\123\COTON\RICA)

# COMPARAISON OF CASH MARGIN OF COTTON AND MAIZE IN THE MAIN REGIONS OF COTTON'S PRODUCTION

moyenne 1989-1990-1991

| | FARMS REPRESENTED | SAMPLES FARMS | AVERAGE AREA (ha) | AREA PRODUCT (ha) | TOTAL AREA (ha) (*) | TOTAL PRODUCTION (t) | AVERAGE YIELD (t/ha) | OUTPUT /ha | TOTAL CASH COSTS | CASH MARGIN ECU/ha |
|---|---|---|---|---|---|---|---|---|---|---|
| GREECE | | | | | | | | | | |
| cotton | 45402 | 1152 | 7.8 | 2.5 | 4.3 | 6.18 | 2.50 | 2330.8 | 597.7 | 1733.1 |
| maïze | 116541 | 1537 | 7.0 | 1.9 | 3.5 | 19.82 | 10.62 | 2039.7 | 494.7 | 1545.0 |
| *MACED-THRACE* | | | | | | | | | | |
| cotton | 21638 | 498 | 7.9 | 2.1 | 4.5 | 4.54 | 2.19 | 2228.2 | 586.7 | 1641.5 |
| maïze | 54393 | 818 | 7.2 | 2.1 | 2.9 | 22.90 | 11.04 | 2066.4 | 546.3 | 1520.1 |
| *THESSALIE* | | | | | | | | | | |
| cotton | 15651 | 425 | 6.3 | 2.5 | 3.8 | 7.05 | 2.90 | 2902.0 | 674.7 | 2227.3 |
| maïze | 13335 | 162 | 7.5 | 2.1 | 3.0 | 23.47 | 11.13 | 2262.7 | 546.5 | 1716.2 |
| *STEREA ELLADA* | | | | | | | | | | |
| cotton | 7052 | 213 | 11.2 | 4.0 | 4.7 | 9.86 | 2.51 | 1744.4 | 492.0 | 1252.4 |
| maïze | | | | | | | | | | |
| SPAIN | | | | | | | | | | |
| cotton | 11355 | 135 | 17.1 | 8.6 | 14.0 | 26.02 | 3.04 | 2722.6 | 1287.3 | 1435.3 |
| maïze | 90522 | 812 | 14.2 | 3.0 | 8.3 | 23.47 | 7.77 | 1517.2 | 577.5 | 939.7 |
| *ANDALOUSIE* | | | | | | | | | | |
| cotton | 11070 | 129 | 17.4 | 8.7 | 14.3 | 26.56 | 3.04 | 2724.9 | 1290.7 | 1434.2 |
| maïze | 4070 | 32 | 18.2 | 5.6 | 15.8 | 50.73 | 8.96 | 1766.6 | 643.5 | 1123.2 |

(*) TOTAL AREAS = CERALES AREA + COTTON + POTATOES + SUGAR BEET + SUNFLOWER + NO PERENNES PLANTS

Source : RICA

There is no reason to think that the profitability of cotton fell significantly after 1991, since yields were normal. The fall in areas was probably due to water supplies being less than expected and to the attraction of sunflower seed under the new arrangements for oilseeds, particularly in 1993.

This analysis shows the microeconomic bases for the rapid development of cotton in Greece. It also shows its reduced attractiveness in Spain, although if normal water supply conditions return, there is no reason to expect structural decline.

## 2.4. Cotton and the environment

The relationship between cotton and the environment is extremely varied. On the one hand, cotton is the main plant textile fibre. It has a better image than competing synthetic fibres, particularly thanks to its being a "natural" product. On the other hand, production of cotton does pose certain environmental problems, as is the case with many intensive crops.

The most important effect of the trend towards single crop farming of cotton, described above, in certain production regions, the fact that cotton is an irrigated crop, and the lack of crop rotation in certain areas is the risk, over the long term, of exhausting the soil and increasing the danger of plant health problems. Irrigation, whilst not solely for cotton, causes problems of water management, both in Greece and in Spain.

There is also the question of inputs, fertilizer and pesticides, which cotton is reputed to consume in large quantities. In fact, on the basis of cost statistics supplied by the FADN, the levels of these two inputs are at comparable levels for cotton and for other intensive crops (such as irrigated maize, wheat in the cereal producing regions in the north, etc). The use of a defoliant on mature cotton plants to facilitate mechanical harvesting is the most obvious use of inputs.

At the ginning stage, there can also be problems with the disposal of byproducts, which are often simply burned in the open air, thus resulting in pollution. The chemical treatment applied to cotton fibres in the textile industry can also pose environmental problems.

Following successful experiments with organic production of cotton in several countries, particularly in the United States, Paraguay, Egypt and India, interest has grown for this type of production in Greece where producers have requested the right to market "organic" cotton. This type of production, however, requires considerably more manpower than traditional methods.

There have also been experiments in the United States on the production of naturally coloured cotton, of value in the high-quality clothing industry: this avoids the need for polluting treatments in the industry itself.

## 2.5. Operators in the sector

Downstream from agricultural production proper, the principal operators are the producers' organizations and the ginning undertakings. A brief outline of these two groups will be given, passing over the textile sector further downstream, principally spinning and weaving.

### Producer groups

During the 1980s, the Community encouraged the establishment of producer groups in the cotton sector. Start-up aid was provided as was investment aid, mainly for the purchase of harvesting machinery.

Most producers now have harvesting machinery, both in Greece and Spain. Producer groups still have a role in managing the pool of equipment. On the other hand, they do not appear very active in concentrating and adjusting supply from producers. It must be recognized, however, that this role can be played by industry downstream (cooperative or otherwise) more easily in this sector than in others, such as the fruit and vegetable sector, since prices are stable, the product relatively uniform and producers are competitive.

### Ginning undertakings

Ginning is an industrial activity with a very low level of value added and is largely dependent on community support. Cooperative undertakings account for around one third of capacity in both producer countries.

Generally speaking, there are no particular difficulties for the sixty odd undertakings in Greece, given the growth in production. In Spain, on the other hand, competition is currrently fierce owing to the small harvests in 1993 and 1994. There are still 32 undertakings, with considerable overcapacity. Working at the average rate, all Spanish production could have been ginned in 15 days in 1994, although operations can easily be spread over three to four months, and more if necessary.

## 3. OPERATION OF THE SYSTEM OF AID

### 3.1. Production aid and the minimum price

Although cotton does not figure in Annex II to the Treaty, Protocol No 4 of the Act of Accession of Greece explicitly recognizes the agricultural character of cotton production and introduces production aid. This was supplemented by Protocol No 14 to the Act of Accession of Spain and Portugal. The aid is intended to support producer incomes but its operation is based on the ginning enterprises. Aid is paid to such undertakings provided that the producer has been paid at least the minimum price (fixed by the Council).

Productionn aid, fixed at least monthly by the Commission, is the difference between the guide price for unginned cotton, fixed annually by the Council, and the price recorded on the world market. In the absence of quotations for unginned cotton, the Commission must "reconstitute" a world price on the basis, per 100 kg:

- of 32 kg of ginned cotton (fibres) ;
- of 54 kg of cotton seed, calculated on the basis of other oilseeds;
- of standard ginning cost calculated at **A ECU 14.25/100 kg** .

It should be noted that fibres generally represent more than 90 % of the total value of fibres and seeds.

The world price used for fixing the aid is a spot price, i.e., forward prices are not used in view of the technical difficulties in establishing them (see 1.2.). Nevertheless, the aid can be fixed in advance of or even after cotton is placed under control in the ginning plants. Advanced fixing enables operators to sell for future delivery knowing in advance the amount of aid they will receive, and if they can sell for future delivery at a higher price than the spot price, they gain because of the fixed nature of the aid. Fixing after delivery is a further facility, although, curiously, ginners who have so far made use of it have generally misread market trends, which has been to the benefit of the Community budget. For cotton, the problem with these operating facilities is not so much their existence as the lack of speedy information about them on which the Commission could take any measures necessary (Commission staff examine changes in world prices on a daily basis).

## THE STABILIZER MECHANISM SINCE THE ACCESSION OF SPAIN

| Marketing year | MGQ (tonnes) | REDUCTION OF GUIDE PRICE % | MAXIMUM LIMIT | DIFFERENCE at end of marketing year (tonnes) | ADJUSTED MGQ (tonnes) |
|---|---|---|---|---|---|
| 1986/87 | 752000 | $\frac{\text{(Est. Prod. - MGQ)*0.5}}{15000}$ | | X | MGQ (+ or -) X |
| 1987/88 | 752000 | $\frac{\text{(Est. Prod. - MGQ)*0.5}}{15000}$ | 15% cut-off | X | MGQ (+ or -) X |
| 1988/89 | 752000 | $\frac{\text{(Est.Prod.-MGQ)*0.5}}{15000}$ | 20% cut-off | X | MGQ(+ or -) X |
| 1989/90 | 752000 | $\frac{\text{(Est.Prod. - MGQ)*0.5}}{15000}$ | 25% cut-off | X | MGQ (+ or -) X |
| 1990/91 | 752000 | $\frac{\text{(Est.Prod. - MGQ)*0.5}}{15000}$ | 25% cut-off | X | MGQ (+ or -) X |
| 1991/92 | 752000 | $\frac{\text{(Est. Prod. - MGQ)*0.5}}{15000}$ | | X | MGQ (+ or -) X |
| 1992/93 | 701000(1) | $\frac{\text{(Est. Prod. - MGQ)*0.5}}{15000}$ | Max. reduction of 15% (all penalties) +5% carryover 3% threshold of X (2) | X | |
| 1993/94 | 701000 | $\frac{\text{(Est.Prod. - MGQ)*0.5}}{15000}$ | 15% cut-off 5% carry-over 3% threshold of X (2) | X | |
| 1994/95 | 701000 | $\frac{\text{(Est. Prod. - MGQ)*0.5}}{\text{MGQ}}$ | 18.5% cut-off 7% carry-over 3% threshold of X (2) | X | |
| 1995/96 | 701000 | $\frac{\text{(Est. Prod. - MGQ*0.5}}{\text{MGQ}}$ | 20% cut-off 7% carry-over 3% threshold of X (2) | X | |

(1): Adjustment of the MGQ following adjustment of the standard quality.

(2): The threshold only applies to production below the cut-off.

Est. prod.: production estimated at beginning of marketing year

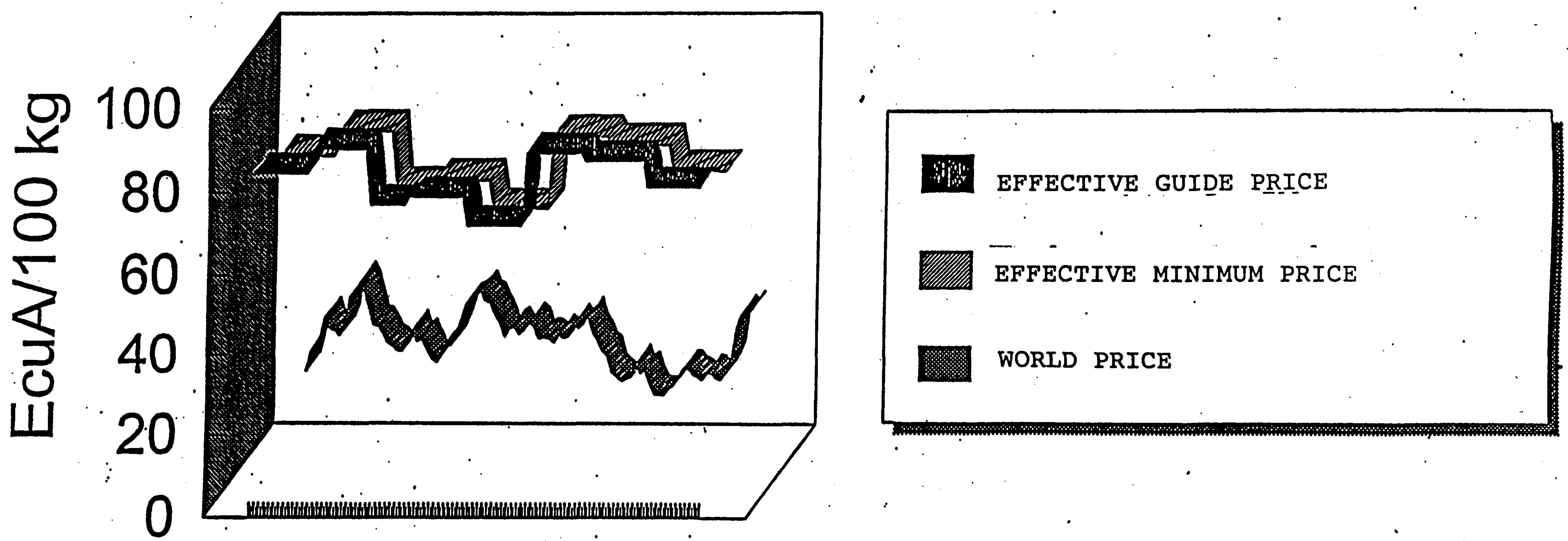
Actual production: production recognized as eligible for aid at end of marketing year

X: actual production less estimated production

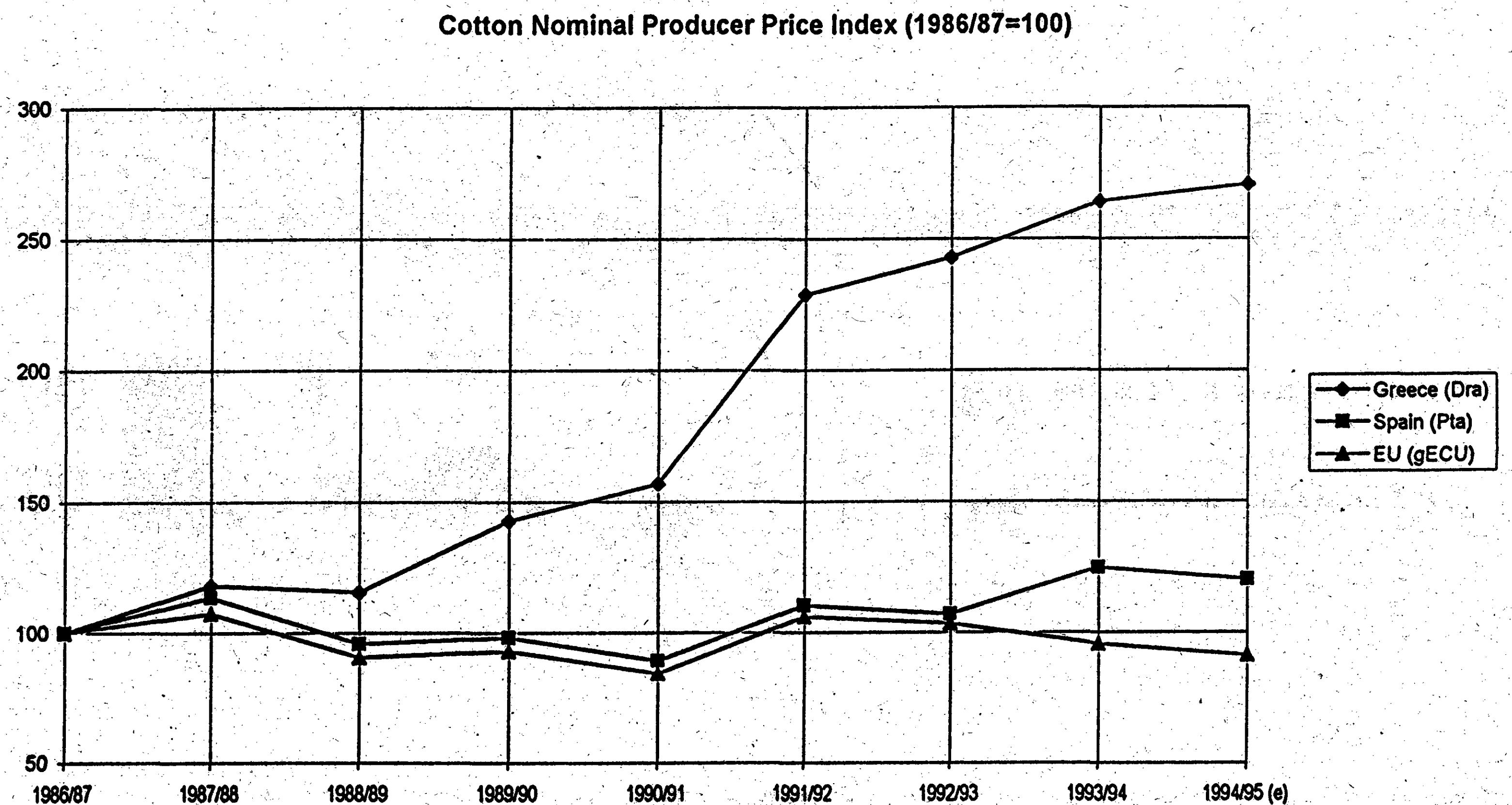
MGQ: adjusted MGQ

**UNGINNED COTTON**

**EVOLUTION OF PRICES 1986 TO 1994**




**SEPT. 86 TO JUNE 94**


Cotton Nominal Producer Price Index (1986/87=100)
300
250
200
150
100
50
1986/87
1987/88
1988/89
1989/90
1990/91
1991/92
1992/93
1993/94
1994/95 (e)
Greece (Dra)
Spain (Pta)
EU (gECU)

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Compliance with a minimum price is monitored for all deliveries from an individual producer to a given plant on leaving the farm. It is adjusted, not only on the basis of the water and impurity content, but also on the basis of the fibre quality (length and grade), which requires sampling and the application of a (Community) scale of increases and reductions for cotton above and below the standard quality.

Official prices for the 1994/95 marketing year before application of the stabilizer (see next paragraph) are as follows:
- guide price: A ECU 101,46/100 kg
- minimum price: A ECU 96,39 /100 kg

## 3.2. The stabilizer mechanism

Since its introduction in 1981, the production aid for cotton has been covered by a stabilizer mechanism based on a community maximum guaranteed quantity (MGQ). Since the accession of Spain (1986/87 marketing year, the rules of these arrangements have been amended almost every year. A description of those changes is given on the next page (page vi). The arrangements are currently as follows:

- MGQ of 701 000 t ;
- reduction in the guide price corresponding to 50 % of the overrun of estimated production of the MGQ ;
- reduction in the minimum price by the same amount;
- correction possible the following year on the basis of actual production; with a threshold of 3 % of the gap;
- maximum reduction (cutoff) of 18,5 % of the guide price for the current marketing year and 7 % for next year.

The system is similar in certain respects to that used for oilseeds between 1988/89 and 1991/92 but has the fundamental difference of having a cutoff, which is now regularly reached. This has meant that production has not fallen (see 1.3. above) and budgetary expenditure has continued to increase (see 3.5. below).

The MGQ of 752 000 t fixed for 1986/87 resulted from the addition of the quantities for two Member States:
- 567 000 t for Greece, the previous MGQ;
- 185 000 t for Spain, the quantity referred to in the Act of Accession, as a form of "right to produce" for Spain.

Subsequently, the standard quality having changed, the MGQ was adjusted to 701 000 t from 1992/93.

The table on the next page (page vii) shows changes in actual official prices, i.e. the prices after application of the stabilizer, from 1986/87 and the reconstituted world price. It shows the importance of the world price and of aid in producers' incomes. They currently account for around 1/3 (around A ECU 250/t and 2/3 (A ECU 500/t) of income respectively.

To show the impact of monetary and agrimonetary effects, the following page (page viii) shows changes in the actual minimum price in national currency at current prices. The stabilizer did not prevent the minimim price in Greece increasing by a factor of 2.7 between 1986/87 and 1994/95 and the same price in Spain from remaining at the same level. If account is taken of the difference in inflation rates, however, the gap is reduced.

It should not be forgotten that the monetary effects are the same for all products covered by a market organization and are not therefore specific to cotton. Neither do they explain the relative decline of cotton production in Spain to that in Greece. In both countries, it is the relative levels of support for crops which explain changes in production.

The current level of aid is around A ECU 1400/ha.

## 3.3. Aid to small producers

A special aid scheme for small cotton producers was introduced in the 1989/90 marketing year in order to partly offset the effects of the stabilizer for those producers and following the introduction of the system of aid for small olive oil producers. Small producers were assumed to be unable to benefit from the economies resulting from mechanization.

Cotton producers eligible for a particular marketing year for aid for small cotton producers are those with an area of not more than 2,5 ha under cotton. The basic additional aid is ECU 250/ha up to a maximum guaranteed area of 73 000 ha, calculated on a historical basis, in order to ensure absolute budgetary neutrality.

Over the years, this aid has resulted in an increase in the number of small producers by producing a division in applications, particularly in Greece, and therefore an increase in the area concerned, which has increased from 21 % in 1989/90 to 50 % in 1993/94. The position during the latest year of application was as follows:

System of aid for small producers in 1993/94

| | Number of producers | Area concerned | % of area under cotton |
|---|---|---|---|
| Greece | 99 000 | 187 000 | 3.2 |
| Spain | 3 800 | 5 200 | 16.5 |
| E.U. | 102 800 | 192 200 | 50.1 |

This development of the system brought actual aid to A ECU 94/ha in 1993/94, representing only around 4 % of the income of the producers concerned.

The argument that small producers lack mechanization is no longer valid since producers use harvesting machines in common through producer groups.

## 3.4. Problems of control

The keys to management of the cotton arrangements are:
- the area declaration submitted by producters ;
- the contract between the producer and the ginner, with the undertaking to respect the minimum price;
- the bringing of unginned cotton under control in the ginning plant, with determination of quality ;
- goods in/goods out records at the ginning plant.

In theory, this system of management should ensure adequate control. It enables the origin of each batch of unginned cotton to be traced and the plausibility of quantities to be checked given the areas concerned.

The Commission takes the view that the operation of the system is generally satisfactory in Spain. This is not the case for Greece however, where attention has been drawn, particularly since the 1991/92 marketing year, to an increase in the quantities eligible for aid which appears excessive when compared with initial estimates. The Commission's principal criticisms of management of the system in Greece are:

- the almost total absence of checks on individual areas;
- the lack of checks on implausible yields;
- the existence of intermediaries between producers and ginners, with numerous cases of falsification of crop declarations;
- shortcomings in the procedures for bringing cotton under control, which can lead to falsification of the quantities eligible ;
- management of the system by a body (the Cotton Board) whose status is unclear and which, furthermore, takes 1 % of aid ;
- lack of cooperation from the Greek authorities.

The situation was considered sufficiently alarming for the Commission to announce its intention of refusing to clear the 1991 accounts for Greece for cotton, refusing 25 % of expenditure and 100 % if cooperation was not forthcoming.

There have been no complaints from producers regarding lack of compliance with the minimum price.

## 3.5. Budgetary expenditure

Budgetary expenditure on cotton is accounted for by production aid (paid per tonne) and the special aid for small producers (paid per hectare). The former, included in Chapter 1-14 - Fibre Plants, is by far the largest, amounting to an average of B ECU 687 million over the period 1991-93. The latter, which comes under Chapter 1-38 - Rural Development, is only B ECU 21 million per year, thanks to the maximum guaranteed area mechanism which ensures absolute budgetary neutrality.

The following table shows expenditure on production aid since 1986.

Expenditure on production aid

(B ECU Mio)

| 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 (budget) |
|---|---|---|---|---|---|---|---|---|
| 532 | 479 | 472 | 571 | 540 | 488 | 742 | 831 | 760 |

(Source : DG VI)

The existence of the maximum guaranteed quantity has not permitted stabilization of expenditure because of the cutoff for reductions applicable to official prices and aid.

As was seen in 1.3.4. on medium-term production forecasts, if the support system remains unchanged, budgetary expenditure will be almost ECU 1 billion in 2000.

## 4. CONCLUSION/PROPOSALS

It emerges from this analysis that the existing aid system on the maximum guaranteed quantity has not succeeded in its objective of limiting support to the quantity foreseen because of the limit on the aid reductions and yet that the system is perceived to be unfair because expansion in one producing member state has led to aid reductions in both member states. Against this background it is not surprising that the Council in December 1993 noted that the Commission intended to reflect "on the specific problems of the cotton sector in the spirit of fair management".

**Possible solutions**

One solution which has been examined by the Commission would be to integrate cotton into the compensation scheme for arable producers alongside cereals, proteins and oilseeds. The Commission does not, however, consider that this solution would be appropriate. The level of aid for cotton expressed in terms of aid per hectare far exceeds that of other arable crops - around 1700 ECU/ha compared with 540 ECU/ha(*) for irrigated maize. Thus the discipline of the base area would not, of itself, provide a sufficient budgetary protection and it would be necessary to apply a separate Maximum guaranteed area for cotton. Furthermore, given the high proportion which labour and other inputs represent in the total value of the cotton, there would be a strong temptation for producers to claim the area aid on the basis of low or minimum cultivation, in other words, to cultivate the aid.

The Commission, therefore, has concluded that the basic structure of the aid system should be retained, subject to a number of adaptations as explained in the following paragraphs.

**PROPOSALS**

*Level of support*

The volume of aid provided in 1992, which was the point of departure for the reform of other sectors, should be regarded as the basis for future support in this sector.

*Small producers scheme*

As small producers are able to benefit from mechanisation by working collectively and as it is evident that the effect of the scheme has been to distort production structures in Greece, this scheme should be ended and the budgetary cost of this scheme should be integrated into the total value of support for the sector. The total support for the sector, for large and small producers combined, was 762.9 MECU in 1992.

(*) respectively 1400 and 450 in "old" green ECU.

*Revised MGQ and distribution between producing member states*

The MGQ should be split between the two producing member states, in accordance with their average production in the last period of three consecutive years in which climatic conditions can be regarded as having been normal, i.e. the years 1990/91 - 1992/93. Average Community production in this period was 947,000 tonnes, of which 698,000 tonnes were in Greece and 249,000 in Spain.

*Revised target price*

To ensure compatibility between the revised MGQ and the level of support in 1992, the level of the guide price should henceforth be set at 110.73 ECU/100 kg. This level of target price has been calculated taking account of an estimated normal world price of 30 ECU/100 kg (the middle of the observed range of 18-42 ECU/100 kg and the average for the years 1986/87 - 1991/92)(*) . Hence under normal world market conditions and with the continuance of recent average production levels, expenditure will equal the budget limit(**) .

*Equitable management*

The aid penalties to be applied should the increased MGQ be exceeded would be partly applied at a Community level and partly at a member state level. Thus the first 10% of any excess (ie 5% penalty) could be applied equally to producers in both of the member states concerned. Beyond that any further penalty would be shared in proportion to the extent to which either or both member states' production had exceeded their national guaranteed quantity (NGQ) by more than 10%. With the rebased MGQ and with the equitable sharing of any potential penalties, which would enable each member state to encourage producers to respect their national guaranteed quantities and thus avoid large aid reductions, a limit on potential aid reductions is no longer necessary nor is it compatible with the objective of the revised system. Similarly it will no longer be appropriate to continue the existing provisions which provides for part of the aid penalty to be carried forward from one season to the next. Aid reduction will, therefore, fall equitably on the producers in the year where any excess occurs.

*Enhanced control*

Although, from the reasons explained above, an aid per hectare system would not be appropriate for cotton, it is nevertheless desirable for control reasons to establish a link between the hectares planted with cotton and the quantity of unginned cotton delivered to the ginners.This link, to be established on the basis of appropriate yield coefficients will reinforce existing controls on the volume of ginned cotton produced by the ginners. This additional control will protect the Community budget from the risk of aid being paid on

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(*) respectively 91.7, 25 and 15-35 in "old" green ECU.

(**) (110.73 ECU - 30.2 ECU)x 10 x 947,000.

cotton not actually produced by Community producers and avoid the risk that genuine producers could be penalised because of the MGQ being exceeded as a result of fraudulent production.

*Establishment of the world price*

At present the world price for unginned cotton is fixed on the basis of the value of ginned cotton and cotton seed, after taking account of ginning costs. This system is, however, subject to serious weaknesses.Ginning costs cannot be accurately established and reliable quotations for the value of cotton seed are lacking. It is, therefore, proposed to establish in future the price of unginned cotton on the basis of quotations for ginned cotton adjusted by a coefficient based on the past relationship between the ginned cotton price and the price for unginned cotton, as it was calculated by the Commission.

*Marketing year and payment of aid*

In order to establish forecast production more accurately, it is proposed to delay the start of the marketing year from 1st September to 1st October, that is to say, to a date which corresponds better with the time when the ginning period begins. The final level of payment will, of course, depend in part on whether and to which extent the MGQ has been exceeded which cannot be established until near to the end of the campaign. However, an advance of not more than 40% will be available to ginners. The level of the advance within that maximum will be determined each year by the Commission after consulting the management committee, in the light of provisional information on the level of production and the expected world market price.

**Conclusion**

The Commission considers that this system will offer producers greater security and a better basis on which to plan. It will ensure that production will remain within the new MGQ and NGQs if the proposed aid level proves to provide a reasonable level of return by comparison with competing crops. If expansion takes place until an equilibrium is reached, this will reflect equitable management of cotton by comparison with other crops. At the same time the division of the MGQ between producing member states can be regarded as equitable treatment of producers in the two Community production zones.

ANNEX

## I. GUARANTEED NATIONAL QUANTITY (GNQ)

Spain : 249 000 (1)

Greece : 698 000 (2)

| | Spain (1) | | | Average |
|---|---|---|---|---|
| | 1990/91 | 1991/92 | 1992/93 | |
| Quantities eligible for previous standard quality aid (14-3) | 281 838 | 279 575 | -- | |
| Quantities eligible for current standard quality aid (10-3) (*) | 262 835 | 260 725 | 223 932 | 249 164 |

| | Greece (1) | | | Average |
|---|---|---|---|---|
| | 1990/91 | 1991/92 | 1992/93 | |
| Quantities eligible for previous standard quality aid (14-3) | 709 871 | 719 449 | -- | |
| Quantities eligible for current standard quality aid (10-3) (*) | 662 008 | 670 940 | 760 685 | 697 878 |

(*) The standard quality for unginned cotton was adjusted during the 1992/93

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marketing year: the conversion of the quantities eligible for the aid (relating to marketing years before the abovementioned adjustment in standard quality) expressed in terms of the current standard quality is obtained using a reduction coefficient of 0.9325748.

## II CALCULATION OF THE GUIDE PRICE

- assuming a world market price for unginned cotton of ECU 25/100 kg (average 1986/87 - 1991/92)

- $\frac{\text{Total expenditure (without a change in the system)*}}{\text{GMQ}} \times 10^6 =$

$\frac{762.9}{947\ 000 \text{ tonnes}} \times 10^6$ budget ecus

= 66.7 green ecus/100 kg **

- Guide price for unginned cotton =
66.7 green ecus/100 kg + 25 green ecus/100 kg

= 91.7 green ecus/100 kg, or ECU 110.73/100 kg ***

* : relating to the 1992/93 marketing year and broken down as follows:

- general system: 742 million budget ecus
- small producers' scheme: 20.9 million budget ecus.

** : Converting budget ecus into green ecus is done by dividing by 1.207

*** : From 1 February 1995 all the prices and amounts expressed in green ecus must be converted into financial ecus by multiplying by a factor of 1 207509

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Proposal for a

COUNCIL REGULATION (EC) No

'95/ 0061(CNS)

of

adjusting, for the fifth time, the system of aid for cotton introduced by Protocol 4 annexed to the Act of Accession of Greece

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

Having regard to the Act of Accession of Greece, and in particular paragraph 11 of Protocol 4 on cotton, as last amended by Regulation (EEC) No 2052/92[1],

Having regard to Council Regulation (EEC) No 2052/92 of 30 June 1992 adjusting, for the second time, the system of aid for cotton introduced by Protocol 4 annexed to the Act of Accession of Greece, and in particular Article 5 thereof,

Having regard to the proposal from the Commission,

Having regard to the opinion of the European Parliament,

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

[1] OJ No L 215, 30.7.1992, p. 10.

Whereas a review of the operation of the system established by Protocol 4 as referred to in Article 5 of Regulation (EEC) No 2052/92 has shown that the system needs to be adjusted;

Whereas a study on the impact of cotton growing in the regions where it is practised points to a potential for increasing production in those areas of the Community most suitable for this crop, taking into account the Community's demand for cotton fibre; whereas the guaranteed maximum quantity should accordingly be increased;

Whereas, on the other hand, to ensure that production of this crop does not expand in those regions less suited to it and to avoid an increase in expenditure, the guide price should be reduced in proportion to the increase in the guaranteed maximum quantity and no limit should be placed on the reduction in aid should the guaranteed maximum quantity be exceeded; whereas, in fixing the guide price, account must be taken of the adjustment to the price in ecus laid down in Council Regulation (EC) No 150/95 of 23 January 1995 amending Regulation (EEC) No 3813/92 on the unit of account and the conversion rates to be applied for the purposes of the common agricultural policy[2];

Whereas, with a view to facilitating budgetary arithmetic and fairness among operators, any deferral of the reduction in aid should be disallowed;

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2 OJ No L 22, 31.1.1995, p. 1.

Whereas the diverging production trends in the producer Member States have produced inequitable effects in the operation of the system of stabilizers; whereas, with a view to establishing a fairer system, provision should be made so that, where the guaranteed maximum quantity is exceeded by no more than 10%, the aid should be reduced equally in the producer Member States and, where the guaranteed maximum quantity is exceeded by more than 10%, the Member States responsible should be subjected to a further reduction; whereas, however, provision should be made whereby Member States which are potential cotton producers can start to grow cotton by setting production at a level at which the system of stabilizers does not apply;

Whereas, to enable operators to run longer production and processing programmes, the guide price and the minimum price payable to the producer to ensure the benefits from the aid should no longer be fixed annually;

Whereas experience may show that other adjustments to the system provided for in the abovementioned Protocol are necessary; whereas a procedure allowing the Council to adjust the system should accordingly be laid down,

HAS ADOPTED THIS REGULATION:

Article 1

This Regulation provides for adjustments to the system of aid for the production of cotton provided for in paragraphs 3, 8, 9 and 11 of Protocol 4 annexed to the Act of Accession of Greece and adjusted by Council Regulation (EEC) No 1964/87[3], as last amended by Regulation (EC) No 2760/94[4].

Article 2

Article 2 of Regulation (EEC) No 1964/87 is replaced by the following:

"Article 2

1. A guaranteed maximum quantity (GMQ) is hereby established for which the aid referred to in point 3 of Protocol 4 on cotton shall be granted.
   This quantity shall be fixed for each marketing year at 947 000 tonnes of unginned cotton.

2. The GMQ shall be allocated as follows among the Member States (guaranteed national quantity - GNQ):
   Spain: 249 000 tonnes
   Greece: 698 000 tonnes.

3. Paragraph 4 notwithstanding, if during a marketing year actual production exceeds the GMQ, the guide price for that year shall be adjusted as follows:

[3] OJ No L 184, 3.7.1987, p. 14.
[4] OJ No L 294, 15.11.1994, p. 17.

- where the GMQ is exceeded by up to 10%, the guide price shall be reduced by a percentage equal to half the percentage excess;

- where the GMQ is exceeded by more than 10%, an additional reduction shall be made to the guide price in every Member State where production exceeds the GNQ plus 10%. The additional reduction shall be calculated taking account of the extent to which the GMQ was exceeded and shall be proportional to the difference between the actual quantity produced by each Member State and its GNQ.

The reductions applicable shall be fixed in accordance with the procedure laid down in Article 12 of Council Regulation (EEC) No 1308/70[5], as last amended by the Act of Accession of Norway, Austria, Finland and Sweden to the European Union.

4. Paragraph 3 shall not apply to Member States in which the actual quantity of unginned cotton produced does not exceed 1 500 tonnes in the marketing year."

## Article 3

Paragraph 8 of Protocol No 4 is replaced by the following:

"8. The guide price shall be set at ECU 110.73/100 kg of unginned cotton.

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5 OJ No L 146, 4.7.1970, p. 1.

This price shall relate to cotton:

- of fair, sound and merchantable quality,
- having a 10% moisture content and 3% impurity content,
- having the necessary characteristics to produce, after ginning, 32% grade 5 fibres (white middling) of 28 mm length (1-3/32")."

Article 4

The following paragraph is inserted in Protocol 4:

"8a. Production aid shall be granted only to those undertakings which buy unginned cotton at a price at least equal to a minimum price. The minimum price shall be set at ECU 105.19/100 kg of unginned cotton for the quality selected for the guide price at the farm gate."

Article 5

Point (a) in the second subparagraph of paragraph 9 of Protocol 4 is deleted.

## Article 6

Paragraph 11 of Protocol No 4 is replaced by the following:

"11. Before the start of the 1999/2000 marketing year at the latest, the Commission shall send the Council a report on the operation of the system of aid for cotton.
If the report shows it to be necessary, the Council, acting by qualified majority on a proposal from the Commission and having consulted Parliament, shall decide on any adjustments to the system, account being taken of the experience acquired in operating both this system and the system of support for arable crops."

## Article 7

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

It shall apply from the 1995/96 marketing year.

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

Done at For the Council

Proposal for a

**COUNCIL REGULATION (EC) No**

**of**

**laying down the general rules for the system of aid for cotton and repealing Regulation (EEC) No 2169/81**

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THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Union,

Having regard to the Act of Accession of Greece, and in particular paragraph 9 of Protocol 4 on cotton, as last amended by Regulation (EC) No /95[1],

Having regard to the proposal by the Commission,

Whereas Potocol 4 of the Act of Accession of Greece and Council Regulation (EEC) No 1964/87[2] have been amended by Regulation (EC) No /95; whereas Council Regulation (EEC) No 2169/81[3], as last amended by Regulation (EEC) No 1554/93[4], should accordingly be amended; whereas the significance of the adjustments that need to be made to Regulation (EEC) No 2169/81 and the large number of amendments already made to it make it appropriate to recast this Regulation for the purposes of clarity and transparence; whereas Regulation (EEC) No 2169/81 should therefore be repealed;

Whereas, pursuant to paragraph 9 of the Protocol, it is necessary to lay down the rules of procedure and sound management for its application, the general rules of the system of production aid, the criteria for determining the world market price and the rules concerning the financing of the measures envisaged;

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1 See page of this Official Journal
2 OJ No L 184, 3.7.1987, p. 14.
3 OJ No L 211, 31.7.1981, p. 2.
4 OJ No L 154, 25.6.1993, p. 23.

Whereas, in order to facilitate the management and control of the aid system, provision should be made for a procedure establishing close cooperation between the Member States and the Commission within a Management Committee; whereas it is advisable to use the Management Committee for Flax and Hemp as provided for in Regulation (EEC) No 1308/70 on the common organization of the market in flax and hemp[5];

Whereas, in accordance with Article 2 of Regulation (EEC) No 1964/87, the aid shall be reduced by a coefficient yet to be determined where Community production exceeds a quantity fixed in advance; whereas, in consequence, the amount of aid to be granted cannot be determined until the actual quantity produced is itself known; whereas, to offset the adverse effects of late payment of aid for the parties involved, provision should be made for the part of the aid to be paid in advance;

Whereas, pursuant to the third subparagraph of paragraph 3 of the Protocol, the aid is determined on the basis of the difference between a guide price for unginned cotton and the world market price; whereas, since there is no international trade in unginned cotton, and there are therefore no offers or quotations, provision should be made to enable a world market price for this product to be determined; whereas this price may be established on the basis of the historical relationship between the price agreed for ginned cotton and that calculated for unginned cotton;

Whereas, when calculating the price of ginned cotton, account should be taken of the offers made on the world market and of the quotations on those exchanges that are important for international trade; whereas the price on the world market must be calculated using the lowest offers and quotations on that market among those that are considered representative of the real market trend;

[5] OJ No L 146, 4.7.1970, p. 1.

Whereas, for the aid system to operate correctly, the world market price must be recorded for a Community frontier crossing point; whereas, in fixing this point, account should be taken of the extent to which it is representative for imports of the products in question; whereas, therefore, in the case of multiple origins the ports of Northern Europe should be chosen and in the case of a limited number of origins, offers or quotations recorded on an exchange outside Europe the port of Piraeus should be chosen; whereas, in the latter case the offers and quotations adopted will need to be adjusted if they relate to some other frontier crossing point;

Whereas such adjustments should also be made to the offers and quotations adopted in order to compensate for any variation from the presentation and quality taken as a basis for fixing the guide price;

Whereas the producer Member States should be required to set up the control arrangements necessary to ensure that the aid system operates correctly;

Whereas, with a view to subjecting the Community expenditure on applying the planned measure to financial and monetary rules and appropriate procedures, Council Regulation (EEC) No 729/70 of 21 April 1970 on the financing of the common agricultural policy[6], as last amended by Regulation (EEC) No 2048/88[7], should apply mutatis mutandis to the matters dealt with herein, as should the Regulations relating to the value of the unit of account and the exchange rates to be applied within the framework of the common agricultural policy;

Whereas the adjustments to the system as laid down in this Regulation must be implemented as smoothly as possible; whereas provisional measures may therefore be necessary,

HAS ADOPTED THIS REGULATION:

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[6] OJ No L 94, 28.4.1970, p. 13.
[7] OJ No L 185, 15.7.1988, p. 1.

## Article 1

For the purposes of this Regulation:

(a) "unginned cotton" means the fruit of the cotton plant (Gossypium) which has reached maturity and has been harvested, and which contains pod waste, leaves and earthy matter;

(b) "ginned cotton" means the cotton fibres (other than linters and waste), neither carded nor combed, from which the seeds and most of the pod waste, leaves and earthy matter have been removed.

## Article 2

The guide price for unginned cotton of a specified quality shall remain applicable throughout a given marketing year; the marketing year shall run from 1 October to 30 September.

## Article 3

1. The world market price for unginned cotton shall be determined by taking account of the historical relationship between the world market price for ginned cotton and that calculated for unginned cotton. It shall be determined periodically on the basis of the world market price recorded for ginned cotton.

2. If the world market price for unginned cotton cannot be determined in accordance with paragraph 1, this price shall be established on the basis of the most recent price determined.

## Article 4

1. The world market price for ginned cotton shall be determined on the basis of a grade 5 (white middling) product with a fibre length of 28 mm (1–3/32"), account being taken of the offers made on this market and of the quotations on one or more European exchanges that are important for international trade. The price shall be determined using the lowest offers and quotations among those that are considered representative of the real market trend.

2. For the purposes of the above calculation, an average shall be established of the offers and quotations on one or more European exchanges for a product delivered cif at a port in Northern Europe and coming from the various supplier countries considered the most representive in terms of international trade.

   However, where the world market price cannot be determined in accordance with the preceding subparagraph, it shall be determined:

   - on the basis of a limited number of the most representative offers and quotations for a product delivered cif at Piraeus recorded on the Liverpool exchange, or on another European exchange, or

   - on the basis of the offers and quotations on a non-European exchange either by calculating an average of the offers and quotations for a product delivered cif at Piraeus coming from various supplier countries that are considered the most representative in terms of international trade, or by using a limited number of the most representative offers and quotations for a product delivered cif at Piraeus.

3. Where the offers and quotations recorded do not satisfy the requirements referred to in the preceding paragraphs, the necessary adjustments shall be made.

## Article 5

1. Without prejudice to Article 2(3) of Regulation (EEC) No 1964/87, when the world market price determined in accordance with Article 3 is below the guide price, aid equal to the difference between these two prices shall be granted for unginned cotton harvested in the Community.

2. The amount of the aid to be paid shall be the amount applicable on the day the application for aid is made. However, the amount of the aid applicable on the day the application is made shall be adjusted on the basis of the difference between the guide price applying on that day and that applying on the day when the cotton is placed under control.

   Should the application for aid be lodged before the application for supervised storage, the application for aid shall not be valid unless an adequate security is lodged to guarantee submission of the application for supervised storage within the time limit set.

3. Entitlement to the aid shall be acquired when the cotton is ginned. However, aid may be paid in advance from 16 October following the start of the marketing year when the unginned cotton enters the cotton ginning undertaking, provided that an adequate security has been lodged. The amount of the advance shall be calculated using the procedure laid down in Article 10(1), account being taken of the estimated production of unginned cotton and of the anticipated amount of the aid. The advance may not exceed 40% of the guide price. Any aid balance outstanding shall be paid once the actual quantity produced has been determined and the amount of the aid has been revised downwards, where appropriate. It shall be paid before the end of the marketing year, at the latest.

4. The aid shall be paid by the producer Member State on whose territory ginning takes place.

5. The aid shall only be paid for a product of sound, fair and merchantable quality.

6. The aid shall be paid for the quantity of unginned cotton that has entered the cotton ginning undertaking.

However, if the quantity of ginned cotton is less than or equal to 33% of the quantity of unginned cotton that has entered the cotton ginning undertaking, aid shall be granted for the quantity of cotton ginned, multiplied by 100 and divided by 32.

The quantity of ginned cotton eligible for the aid shall be calculated on the basis of its weight, reduced where necessary for any difference between:

- the representative percentage of recorded impurities compared to the representative percentage for grade 5, and

- the percentage moisture content recorded compared to that representative of Community ginning.

The representative percentages referred to in the above indents shall be determined in accordance with the procedure referred to in Article 11(1).

Article 6

The additional reduction in the guide price referred to in the second indent of Article 2(3) of Regulation (EEC) No 1964/87 shall be established as follows:

(a) if the actual production in Spain or Greece exceeds the guaranteed national quantity (GNQ) plus 10%, the excess in each Member State shall be calculated as a percentage of the GNQ and the guide price shall be reduced by a percentage equal to half the percentage excess;

(b) in other cases, the actual production in excess of the guaranteed maximum quantity (GMQ) plus 10% shall be calculated as a percentage of the GNQ of the Member State concerned, and the guide price shall be reduced by a percentage equal to half the percentage excess.

Article 7

Aid shall be granted only to those cotton ginning undertakings which apply for it and which

1. have submitted either:

   (a) a contract stipulating payment to the producer of a price at least equal to the minimum price referred to in Article 8a of Protocol 4 and containing a clause specifying that:

      - in the event of application of Article 2(3) of Regulation (EEC) No 1964/87, the agreed price shall be reduced by the amount by which the aid is reduced following application of that Article,
      - in the event of a difference between the quality of the cotton delivered and the standard quality, the price agreed will be adjusted proportionally by common consent between the contracting parties; or

   (b) a statement giving details of the conditions under which the ginning is carried out and how the aid is passed on to the producers where the undertaking gins cotton on behalf of an individual producer or a producer associated with that undertaking.

2. keep stock accounts on ginned and unginned cotton that satisfy requirements to be laid down, with a view to enabling entitlement to the aid to be checked.

3. provide the other supporting documents needed for checking entitlement to the aid.

4. furnish proof that the cotton delivered under the contract or under the statement referred to in point 1(b) has been the subject of the declaration of area sown referred to in Article 8.

Article 8

Before the start of each marketing year, the estimated production of cotton referred to in Article 5(3) shall be drawn up using the procedure referred to in Article 11(1), account being taken of crop estimates.

In order to draw up these estimates, a system of declarations of the areas sown shall be established.

Article 9

Actual production in each marketing year shall be determined before the end of June of that same year using the procedure referred to in Article 11(1), account being taken in particular of the quantities for which aid has been requested.

Article 10

The producer Member States shall set up a system of controls to:

- ascertain the quantity of unginned Community cotton which has entered each cotton ginning undertaking,

- ascertain the quantity of unginned Community cotton which has been ginned,

- ascertain the quantity of ginned cotton obtained in each cotton ginning undertaking from the quantity referred to in the first indent,

- ensure that the minimum price is complied with.

Article 11

1. Detailed rules for the application of this Regulation shall be determined in accordance with the procedure laid down in Article 12 of Regulation (EEC) No 1308/70.

2. If it proves necessary to introduce transitional mesures in order to facilitate implementation of the adjustments to the system as laid down by this Regulation, such measures shall be adopted in accordance with the procedure provided for in paragraph 1. They shall apply until the end of the 1995/96 marketing year at the latest.

Article 12

1. Regulation (EEC) No 2169/81 is hereby repealed.

2. References made to the repealed Regulation or to any Articles thereof shall be constued as being made to this Regulation or to the corresponding Articles hereof.

## Article 13

The provisions of the Regulations relating to the value of the unit of account and the exchange rates to be applied in connection with the common agricultural policy, and those of Regulation (EEC) No 729/70 shall apply mutatis mutandis to the matters dealt with in this Regulation.

## Article 14

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

It shall apply from the 1995/96 marketing year.

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

Done at, For the Council

# FINANCIAL STATEMENT

(PGRA\EN\0017.wpd)

Date: 26 January 1995

1. BUDGET HEADING: 141 aid for cotton production — APPROPRIATIONS: ECU 723 million

2. TITLE:
Proposals to adapt the aid scheme for cotton

3. LEGAL BASIS:
Protocol No 4 annexed to the Act of Accession of Greece

4. AIMS:
To ensure fair administration in the cotton sector, taking account of the differences in the development of cotton production in Greece and Spain

| 5. FINANCIAL IMPLICATIONS: | PERIOD OF 12 MONTHS (ECU million) | CURRENT FINANCIAL YEAR (95) (ECU million) | FOLLOWING FINANCIAL YEAR (96) (ECU million) |
|---|---|---|---|
| 5.0. EXPENDITURE<br>- CHARGED TO THE EC BUDGET (REFUNDS/INTERVENTION)<br>- NATIONAL AUTHORITIES<br>- OTHER | | - | - ECU 5 million |
| 5.1. REVENUE<br>- OWN RESOURCES OF THE EC (LEVIES/CUSTOMS DUTIES)<br>- NATIONAL | | | |

| | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|
| 5.0.1. ESTIMATED EXPENDITURE<br>5.1.1. ESTIMATED REVENUE | | | | |

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

OBSERVATIONS

ANNEX

I. Costs for the 1995/96 marketing year under the old scheme (1996 budget)

**1. Assumptions**

- production : Spain 210 000 tonnes
  Greece 1 050 000 tonnes
  EUR 15 1 260 000 tonnes
- overrun : 1 260 000 t - 701 000 t = 559 000 tonnes
  559 000 t : 701 000 t = 80%
- world price : ECU 303/t (77 cts/lb and $/ECU rate of 0.82)
- guide price : ECU 1 225.1/t
- aid reduction : 20% of the target price, plus 7% carried forward from 1994/95
  27% x ECU 1 225.1/t = ECU 330.8/t
- aid granted : ECU (1 225.1 - 303 - 330.8)/t = ECU 591.3/t

**2. Calculation of expenditure excluding aid for small producers**
1.26 million t x ECU 591.3/t x 0.993 (DR) = ECU 739 million

**3. Cost of aid to small producers**
73 000 ha x ECU 298/ha x 0.993 (DR) = ECU 22 million

**4. Total cost of former scheme**
ECU 739 million + ECU 22 million = ECU 761 million

II. Cost of scheme proposed for the 1995/96 marketing year (1996 budget)

**1. Assumptions**

- Production )
- World price ) same as for I
- Community overrun:
  1 260 000 t - 947 000 t = 313 000 tonnes
  313 000 t : 947 000 t = 33.1%
- 10% of Community overrun: 94 700 tonnes
- guide price: ECU 1 107.3/t
- Reduction of 5% in aid, both in Greece and Spain:
  5% x ECU 1 107.3/t = ECU 55.4/t
- Overrun in Greece: 1 050 000 t : 698 000 t = 352 000 t
  352 000 t : 698 000 t = 50.4%
- Overrun in Spain: 0 t
- Overrun per country:
  313 000 t - 94 700 t = 218 300 t
  of which Spain 0 t
  of which Greece 218 300 t = 31.2%
- Additional reduction:
  Spain = 0
  Greece = 31.2% x 0.5 = 15.6%
  15.6% x ECU 1 107.3/t = ECU 172.7/t
- Total aid reduction:
  Spain = ECU 55.4/t
  Greece = ECU 55.4/t + ECU 172.7/t = ECU 288.1/t
- Aid granted: Spain ECU (1 107.3 - 303 - 55.4)/t = ECU 748.9/t
  Greece ECU (1 107.3 - 303 - 228.1)/t = ECU 576.2/t

**2. Calculation of expenditure**

- Spain: 0.21 million t x ECU 748.9/t x 0.991 (DR) = ECU 156 million
- Greece : 1.05 million t x ECU 576.2/t x 0.993 (DR) = ECU 600 million
  ECU 756 million

III. Impact of proposal

ECU 756 million - ECU 761 million = -ECU 5 million

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# DOCUMENTS

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