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DOCUMENT 260/75

Report

drawn up on behalf of the Committee on Agriculture

on the proposals from the Commission of the European Communities to the Council (Doc. 192/75) for /

- I. a regulation amending Regulation No. 120/67/EEC on the common organization of the market in cereals
- II. a regulation amending Regulation No. 359/67/EEC on the common organization of the market in rice

Rapporteur: Mr J. de KONING



By letter of 7 July 1975 the President of the Council of the European Communities requested the European Parliament, pursuant to Article 43 of the Treaty, to deliver an opinion on the proposals from the Commission of the European Communities to the Council for regulations amending Regulation No 120/67/EEC on the common organization of the market in cereals and amending Regulation No 359/67/EEC on the common organization of the market in rice.

The President of the European Parliament referred these proposals to the Committee on Agriculture as the Committee responsible.

The Committee on Agriculture appointed Mr de Koning rapporteur on 9 July 1975.

It considered these proposals at its meeting of 16 and 17 September 1975.

At the same meeting the committee adopted the motion for a resolution and the explanatory statement by 11 votes to 4.

The following were present: Mr Houdet, chairman; Mr Vetrone and Mr Laban, vice-chairman; Mr de Koning, rapporteur; Mr Boano, Mr Bourdellès, Mr Della Briotta, Mr Durieux (deputizing for Mr Baas), Mr Frehsee, Mr Kofoed, Mr Liogier, Mr Martens, Mrs Orth, Lord Walston and Mr Zeller.

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A

The Committee on Agriculture hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement :

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the proposals from the Commission of the European Communities to the Council for:

- I a regulation amending Regulation No.120/67/EEC on the common organization of the market in cereals
- II a regulation amending Regulation No. 359/67/EEC on the common organization of the market in rice

The European Parliament,

- having regard to the proposals from the Commission of the European Communities to the Council¹,
- having been consulted by the Council pursuant to Article 43 of the EEC Treaty (Doc. 192/75),
- having regard to the report of the Committee on Agriculture (Doc. 260/75),

1. Approves the Commission's proposals;
2. Requests that the Commission draw up a report, before the submission of the price proposals for the 1976/77 marketing year, on:
 - (a) the maintenance of production refunds in the cereal sector and for all products for the starch sector;
 - (b) their impact on the competitive position of processing industries making use of the subsidised products.

¹ O.J. No C 159, 16.7.1975, p. 9.

EXPLANATORY STATEMENTThe purpose of the Commission's proposals

1. The purpose of these proposals from the Commission of the European Communities is to re-introduce, on a discretionary basis, production refunds for maize groats and meal and broken rice used in the brewing industry for the manufacture of beer. It had been decided in March 1975 to discontinue these production refunds on 1 August and 1 September 1975 as it appeared at that time that they were no longer necessary. It has become evident in the meantime that they continue to be required.

Production refunds for maize groats and meal and broken rice for use in the brewing industry

2. In order to ensure that the starch industry's prices remain competitive with those of substitute chemical products, production refunds are provided for the basic materials of that industry - maize, common wheat and potatoes - so as to make them available at reduced prices¹.

3. In the basic regulations on the common organisation of the market in cereals and rice production refunds were also granted for maize groats and meal and broken rice used in the brewing industry for the manufacture of beer².

4. One purpose of these provisions was to protect the processing industries in the Community.

Maize groats and meal and broken rice are used for the brewing industry principally in Belgium, the Netherlands, France and Italy. Their use is forbidden in Germany for beer used for domestic consumption. However, they were used, and restitutions claimed, for beers consumed outside Germany.

Changes in production refunds

5. Production refunds in the cereal sector, together with their manner of calculation, were established at a time when world market cereal prices were considerably lower than Community prices.

¹ Article 11 (1) (a) and (b) of Regulation No 120/67/EEC, O.J. No 117, 19.6.1967, p. 2269

² Article 11 (1) (c) of Regulation No 120/67/EEC.

In such a situation, production refunds were deemed necessary, both to support Community processing industries and to contribute to the stability of the cereal sector by encouraging consumption in a situation of excess production. In this sense, production refunds had a similar function to export refunds : to relieve the Community cereal market.

6. However, since that date changes in the relationship between Community prices and world prices have made production refunds appear less necessary as an instrument for the cereal sector.

In addition, Member States concerned with restraining budgetary expenditure have called for changes in the form of these production refunds, and even the abolition of refunds for products which they did not use to any great extent, namely maize groats and meal and broken rice for the brewing industry.

7. This call for changes to the system of production refunds was stimulated by the fact that the originally established manner of calculating their level led automatically to greater budgetary expenditure when world market prices increased relative to Community cereal prices.

8. Production refunds were fixed as the difference between the threshold price of the product concerned and a fixed supply price of :

- 6.80 u.a. 100 kg. for maize and common wheat;
- 8.30 u.a. 100 kg. for broken rice;
- 8.18 u.a. 100 kg. for potatoes.

9. The pilot cereal for these derived prices was maize. When the common organisation of the market in cereals was set up, the prices of these products were 10% to 15% less in the Community than on the world market. Following the protein shortage of 1973, world market prices exceeded the Community supply prices by 75%. Similarly, broken rice prices reached more than 190% of the supply price. From 1968/69 to 1972/73, supply prices for these products remained fixed, whilst those of cereals rose :

- 8.1% for wheat;
- 13.9% for maize;
- 15.9% for broken rice.

This automatically led to an increase from the Guarantee Section of the EAGGF.

10. In view of this situation, the Council took the view that the level of such refunds was no longer economically justified.

Consequently, a series of amendments to the basic regulations were passed with the purpose of increasing the supply prices and so bring production refunds back to a position of rough equality to the level at which they had been established when the common market organisations for cereals and rice had been introduced.

11. At the time when the proposals for the fixing of prices for the 1975/76 marketing year were under consideration, the Commission proposed :

- to no longer make the granting of production refunds obligatory in every instance;
- to reduce the level of such refunds;
- and to discontinue production refunds for maize groats and meal and broken rice used in the brewing industry¹.

12. On 10 and 11 February 1975, the Council agreed in principle to establish such refunds as a flat rate fixed for one year, at 10 u.a./tonne for maize intended for the starch industry, to replace the variable refunds originally provided for².

By Regulations (EEC) No 665/75 and No 668/75³ compulsory production refunds were replaced by discretionary refunds.

It is further proposed that refunds shall be limited in the event that world market prices remain high⁴.

13. In order to make further savings to the Guarantee Section of the EAGGF, by Regulations No 665/75 and 668/75³ of 4 March 1975, production refunds for maize groats and meal and broken rice were to be discontinued on 1 August and 1 September respectively.

The proposal to re-introduce production refunds for maize groats and meal and broken rice

14. Production refunds for maize groats and meal and broken rice intended for the brewing industry were discontinued on 1 August and 1 September 1975.

The Commission now proposes to re-introduce them. The reasons given for this in the explanatory memorandum attached to the proposal are limited to the phrase "to avoid difficulties which would have arisen". This is not sufficient. Proper consideration to proposals from the Commission cannot be given by the European Parliament on the basis of such an explanation.

¹ Doc. 413/74, pp. 11 and 17

² Council of the European Communities, press release 174/75, 13.2.1975, p. 5

³ O.J. No L 72, 20.3.1975, pp. 14 and 18

⁴ COM(75) 327 final, III

15. Further consultation with the Commission has revealed that termination of production refunds for maize groats and meal and broken rice achieve no saving to the EAGGF. Those using maize and groats and broken rice previously would simply switch to maize starch as a substitute. The end result is merely a transfer in payments from the EAGGF from one product to another.

This false economy has been achieved at the cost of disruption to processing industries of certain members of the Community.

16. For these reasons the Commission proposes to re-introduce this particular production subsidy.

It is believed that no additional cost to the EAGGF will be incurred since production refunds for other products are to be adjusted downwards in compensation.

17. It should be noted that the production refund re-introduced will not be the same as that which had existed, but will be :

- discretionary rather than obligatory;
- at a fixed rate rather than variable;
- and will be limited in time of high prices on the world cereal market.

Conclusions

18. Firstly, it should be pointed out that the explanatory memorandum provided by the Commission is of little help in understanding the motivation for this proposal. Additional and more explicit information is required from the Commission in justification of its proposals.

19. The Committee on Agriculture believes that it can approve this proposal for the re-introduction of production refunds on maize groats and meal and broken rice, on the grounds that :

- no savings to the Guarantee Section of the EAGGF would be achieved by not re-introducing such refunds;
- while, on the other hand, considerable disruption would be caused to processing industries in the Community, possibly even leading to a certain degree of unemployment.

20. However, the Committee on Agriculture would like to express certain reservations.

Firstly, the cost of production refunds in the cereal and rice sectors is not inconsiderable : 56,000,000 u.a. yearly.

Secondly, it is by no means clear that these production refunds do not lead to a distortion of free competition, either directly between the starch industries in different Member States or between industries in the different Member States, such as brewing, which make use of the subsidised products.

21. Consequently, the Committee on Agriculture requests that the Commission draw up a report on :

- (a) the utility of production refunds in the cereal sector;
- (b) their impact on the competitive position of processing industries making use of the subsidised products.