

HILLMAN

COM/1964

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(79) 105 final.

Brussel, 12 March 1979

UNIVERSITY OF PITTSBURGH
LIBRARIES

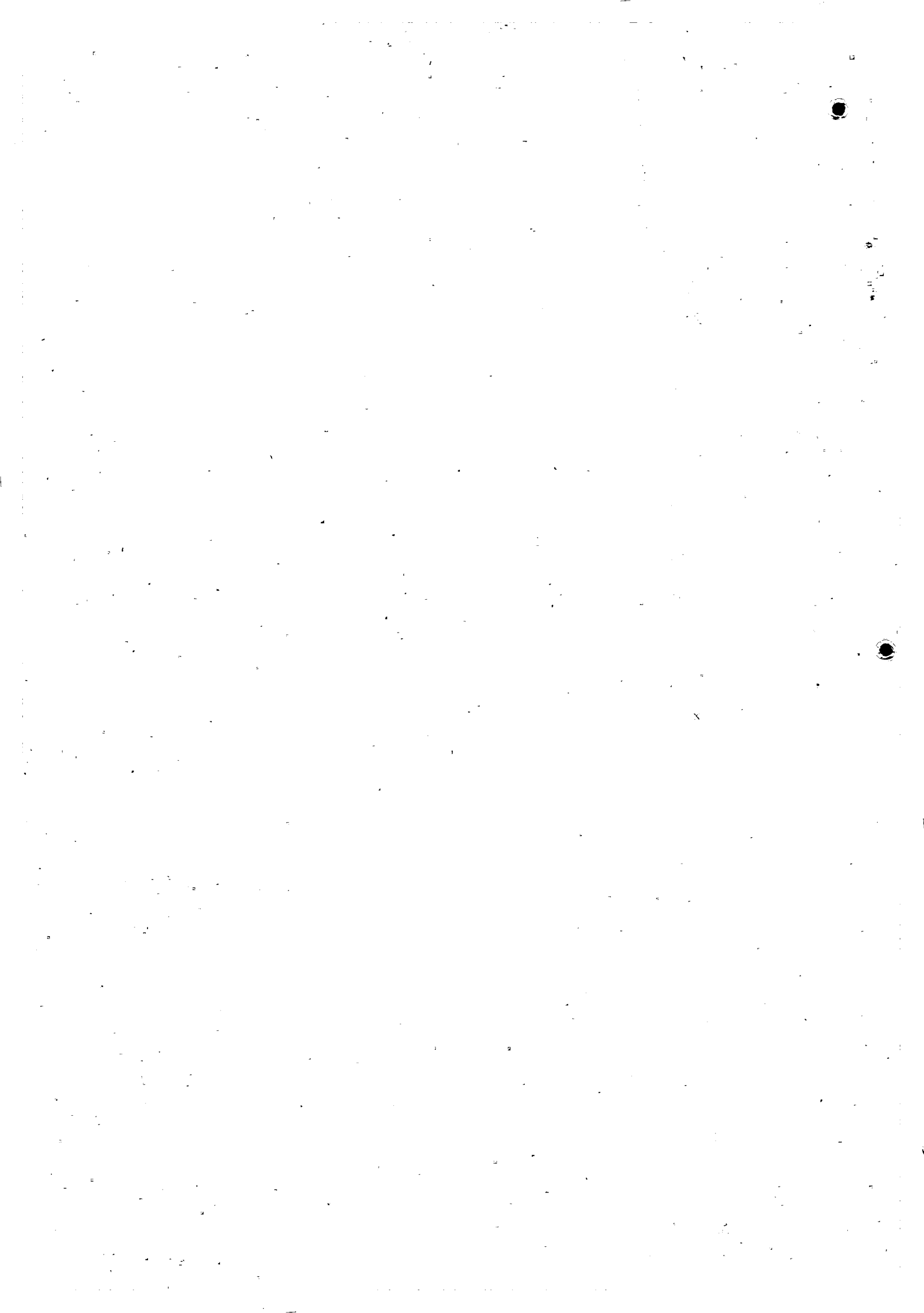
MAR 20 1979

Gift & Exchange

PROPOSAL FOR A COUNCIL REGULATION (EEC)
LAYING DOWN SPECIAL MEASURES IN THE RAW
TOBACCO SECTOR IN RESPECT OF THE
PERUSTITZA AND ERZEGOVINA VARIETIES

AUG 21 1979

(Submitted to the Council by the Commission)



EXPLANATORY MEMORANDUM

1. Article 13 (1) of the basic "tobacco" Regulation (R 727/70 of 21 April 1970) provides that, where for a variety or a group of varieties of tobacco, the quantities bought-in by the intervention agency exceed, for a given crop, a fixed percentage of production or, in any case, a given quantity, the Commission is required to submit a report to the Council. Such a report, submitted to the Council in September 1978 (Doc. VI/2291/78) highlights what are considered to have been the causes of the crisis in oriental tobaccos (Xanti, Perustitza and Erzegovina) and, more particularly:

- the imbalance at world level between supply and demand;
- the increase in the Community of cultivated areas, but especially of production due to the considerable increase in unit yields;
- the decline in quality of Community production, due as much to the genetic degradation of the seed used as to the adoption of unwise cultivation techniques;

causes which caused the accumulation of enormous intervention stocks since the 1976 crop.

2. Although for the three crops 1973/1974/1975 no more than 1.000 tonnes in all were taken into intervention, for the 1976 crop the figure was 13.024 tonnes and for the 1977 crop (provisional figures) about 6.000 tonnes, expressed in leaf tobacco.

It is both interesting and useful, in connection with the measures which the Commission is proposing to adopt, to note how the situation differs markedly according to variety:

| | <u>1976</u> | <u>1977 (provisional)</u> |
|------------|-------------|---------------------------|
| Xanti | 2.532 | 321 |
| Perustitza | 3.683 | 2.161 |
| Erzegovina | 6.809 | 3.542 |

The provisional figures relating to the 1977 crop, therefore, confirm what has already been emphasized by the Commission in its report to the Council, namely, marketing difficulties have become structural only in the case of the Erzegovina varieties, in particular, and Perustitza. In the case of the Xanti variety, on the other hand, the figure recorded for the 1976 may be considered as being exceptional.

3. In conclusion, it should be noted that, for the second crop in succession, the two "ceilings" set by the Council (R. (EEC)1469)⁷⁰ have been exceeded, i.e. both the twenty per cent set on the volume of production and the absolute ceiling of 4.000 tonnes.

It follows that the specific measures to be adopted in order to point the sector in the right direction are, in accordance with the provisions of Article 13 (5) of Regulation 727/70 :

- lowering of the level of the intervention price,
- quantitative limitation of quantities taken into intervention.

4. In view of what has been stated above (see point 2) and of the fact that for the Xanti variety, on the one hand, the marketing difficulties are attributable solely to quota reasons and, on the other, also from a qualitative point of view, this variety has not suffered from the same degradation processes encountered in the case of the other varieties (Perustitza and Erzegovina), the Commission proposal involves a reduction in the intervention price from 90 to 80 % of the norm price of the varieties Perustitza and Erzegovina only. This proposal is based on the provision laid down in Article 13 (4); it is, moreover, in line with the general direction which the Commission is recommending in its proposal for an amendment to Article 13, which has been submitted to the Council together with the 1979 prices package. Possible recourse to quantitative restrictions on intervention was not considered possible and processing structure (small farmers and numerous processing holdings) which would entail a complex administrative infrastructure at the checking stage.

5. The Commission has, moreover, studied (Article 13 (8)) the consequences for producers of the measures proposed to the Council, both from the point of view of employment and of the standard of living. In this respect, it considers its proposal "neutral" :

- because it does not affect the level of the premium and, therefore, the possibility for growers of reaching the norm price in the case of quantities normally saleable on the market;
- because, in addition, the increase in earnings per hectare, which producers secured for themselves by means of the intervention mechanism, must be considered as an exceptional situation which cannot be guaranteed under all circumstances, following the adoption of cultivation techniques designed to ensure the greatest unit yield.

Earnings/hectare (lire)

| | 1970 | 1976 | Increase |
|------------|-----------|-----------|----------|
| Perustitza | 1,148.152 | 2,840.623 | + 247,4 |
| Erzegovina | 865.072 | 2,734.243 | + 316,1 |

The Commission does not, therefore, consider that the lowering of the intervention price from 90 to 80 % of the norm price - in current production conditions (high unit yields) - may have negative effects on employment and on the standard of living of producers and that a programme of aid is necessary.

6. Finally, in view of the initiatives taken by the Commission with the aim of implementing, as from the 1979 crop, a programme of agricultural research for oriental tobaccos and of the prospects which this promises of an improvement - in the medium term - in the quality of production, the Commission is proposing to Council that it adopt the lowering of the intervention price for the 1979 and 1980 crops.

Proposal for a
Council Regulation (EEC)

Laying down special measures in the raw tobacco sector in
respect of the Perustitza and Erzegovina varieties.

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

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

Having regard to Council Regulation (EEC) No 727/70 of 21 April 1970 on the common organization of the market in raw tobacco⁽¹⁾, as last amended by the Act of Accession, and in particular Article 13(3) and (4) thereof,

Having regard to the proposal from the Commission,

Having regard to the Opinion of the European Parliament⁽²⁾,

Having regard to the Opinion of the Economic and Social Committee⁽³⁾,

Whereas it appears from the report of the Commission provided for in Article 13(1) of Regulation (EEC) No 727/70 that the quantities of tobacco of the Xanti-Yaka, Perustitza and Erzegovina varieties from the 1976 crop taken over by the intervention agencies are considerably greater than the quantities and the percentage of production fixed by Council Regulation (EEC) No 1469/70⁽⁴⁾, the threshold which actuates the application of the measures laid down in Article 13 of Regulation (EEC) No 727/70; whereas this trend has continued for the 1977 crop;

Whereas even the prudent prices policy pursued as regards particularly these varieties since the 1974 crop has not led to a reversal in the marketing situation; whereas it is therefore necessary to have recourse to specific measures; whereas, of the various possible measures, a lowering of the intervention price appears the most appropriate to re-establish a better balance between production and demand and to reduce stocks;

(1) OJ No L 94, 28. 4. 1970, p. 1

(2)

(3)

(4) OJ No L 164, 27. 7. 1970, p. 35

Whereas it is evident that the marketing difficulties experienced by the Xanti-Yaka variety may be regarded as being different from those of the Perustitza and Erzegovina varieties and due solely to an exceptional situation; whereas, furthermore, this variety has not suffered the degradation processes which have affected the quality of the two latter varieties; whereas, therefore, the measures envisaged should be applied only to the Perustitza and Erzegovina varieties;

Whereas, in view of the agricultural research programme concerning oriental tobaccos which will be implemented as from the next crop and of the prospects for improvement in the quality of production which will result in the medium term, the measures envisaged should be applied to the next two crops;

Whereas the measures envisaged have no effect on the level of the premium, thereby allowing producers to obtain the norm price in respect of those quantities which may be sold normally on the market; whereas, furthermore, the increase in earnings per hectare, secured by producers by means of intervention and through the use of a method of cultivation calculated to produce a maximum yield, is to be considered as not resulting from the normal play of market forces; whereas, therefore, it does not appear warranted to propose a programme of aid in this sector,

HAS ADOPTED THIS REGULATION :

Article 1

For the 1979 and 1980 crops, the intervention price for tobacco of the Perustitza variety and of the Erzegovina variety shall be reduced from 90 to 80 % of the corresponding norm price.

Article 2

This Regulation shall enter into force on (entry into force of prices of the 1979 crop).

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

Done at

For the Council.

5

ANNEX

Financial implications, as a result of the change in the intervention price from 90 to 80 % of the guide price, for :

Perustitza → Derived intervention price: current = 3.053 u.a./t
proposed = 2.781 u.a./t

Quantitative hypotheses: Reduction of 920 t per marketing year in the amounts bought-in;
Entry into intervention of 1.240 t per marketing year.

| | | | | | | | | |
|-------------------|---|---------|----|------------------|---|---------|--------------|--------------|
| Entry, removal | - | 920 t | at | 12 u.a./t | = | - 0,011 | million u.a. | |
| storage | - | 920 t | at | 77 u.a./t | = | - 0,070 | " " | |
| financial charges | - | 920 t | at | 176 u.a./t | = | - 0,162 | " " | |
| net loss | - | 920 t | at | 2.073 u.a./t (1) | = | - 1,900 | " " | |
| net loss | - | 1.240 t | at | 272 u.a./t (2) | = | - 0,337 | " " | |
| | | | | | | | - 2,480 | million u.a. |

(1) - (2.073 = 3.053 - 980) or the current derived price minus the selling price (AUA)

(2) - (272 = the difference between the net loss per tonne at the old price (3.053) and the net loss per tonne at the proposed price (2.781), i.e. 2.073 - 1.801 = 272).

Erzegovina → Derived intervention price: current = 2.751 u.a./t
proposed = 2.507 u.a./t

Quantitative hypotheses: Reduction of 1.660 t per marketing year in the amounts bought-in;
Entry into intervention of 1.880 t per marketing year.

| | | | | | | | | |
|-------------------|---|---------|--------|--------------|---|---------|--------------|--------------|
| Entry, removal | - | 1.660 t | at | 72 u.a./t | = | - 0,020 | million u.a. | |
| storage | - | 1.660 t | at | 77 u.a./t | = | - 0,128 | " " | |
| financial charges | - | 1.660 t | at | 176 u.a./t | = | - 0,292 | " " | |
| net loss | - | 1.660 t | at (3) | 1.853 u.a./t | = | - 3,000 | " " | |
| net loss | - | 1.880 t | at (4) | 244 u.a./t | = | - 0,459 | " " | |
| | | | | | | | - 3,899 | million u.a. |

(3) - (1.853 = 2.751 - 898) or the current derived price minus selling price.

(4) - (244 = the difference between the net loss per tonne at the old price (2.751) and the net loss per tonne at the proposed price (2.507), i.e. 1.853 - 1.609 = 244).

Total financial implications: 2,48
3,90

6,38 million u.a. = 6,95 million ECU

