



COMMISSION OF THE EUROPEAN COMMUNITIES

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Proposal for a

COUNCIL REGULATION (EC)

on a programme to supply agricultural products to the Russian Federation

(presented by the Commission)

EXPLANATORY MEMORANDUM

Background

Following the visit of President Santer to Moscow on October 9 and the subsequent EU-Russia Summit in Vienna on 27 October 1998, a Commission delegation went to Moscow on 6 November 1998 for a fact-finding mission in order to discuss the difficult Russian food situation with the Russian Government.

According to the Russian Government, the 1998-grain harvest will amount to some 48-49 million tonnes, compared to between 60 and 80 million tonnes in the early 1990s. Compared to the 1997-harvest (88.5 million tonnes), the 1998-harvest has decreased by 46%. The grain stocks remaining from the 1997-harvest are estimated at 12 to 15 million tonnes and contain mainly grain for animal feeding. Recent Russian Government estimates indicate that there will be grain shortages in about half of the 89 Russian regions. The Government is also worried that farmers will fall short of seed for spring sowing. There are also worries over the quality of the seed stocks. Between 25 and 30% of the volume of the stocks verified so far contain dirt and mould. Consequently, the Commission has been told that Russia would need to import between 4 and 5 million tonnes of grain to cover its needs for human consumption, seeds and livestock feed.

As a consequence of the substantial reduction in the number of cattle since the beginning of the 1990s, Russia is today largely dependent on imports of meat. Meat imports have been abruptly interrupted due to the financial crisis. The domestic meat production will decrease from 1.5 million tonne in 1997 to 1.3 million tonne this year.

The discussions resulted in the conclusion that there will be substantial food shortages in certain Russian regions this winter. To overcome the difficult situation, the most severely affected Russian regions are in urgent need of food supplies from abroad.

This analysis of the food situation is shared by the American delegation, which was in Moscow for three weeks in order to discuss Russia's current food situation. According to a draft Memorandum of Understanding between the USA and Russia, an American food assistance programme will be carried out in Russia. The programme will include wheat, corn, rice, soybeans, soybean meal, beef, pork and skimmed milk powder. The programme will now be implemented by means of detailed P.L. 480, Title I¹ and Section 416 (b)² agreements with the Russian Government.

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- ¹ Which provides for government-to-government sales of agricultural products to developing countries under long-term credit arrangements.
 - ² Which provides for overseas donations of surplus commodities acquired by the Commodity Credit Corporation (CCC). These commodities are used to carry out assistance programmes in developing countries and friendly countries.

The Russian request for food

On 12 November 1998, the Russian Government transmitted a formal request for food aid to the European Union. The request includes 1 million tonnes of wheat, 500 000 tonnes of rye, 50 000 tonnes of rice, 150 000 tonnes of beef, 100 000 tonnes of pork, 50 000 tonnes of skimmed milk powder and 30 000 tonnes of macaroni.

According to the request, the products included will be sold in the most severely affected Russian regions at prevailing market prices.

The Russian Government has given assurances to the European Union to apply full transparency and to take the necessary measures and controls in order to assure that the food is distributed to the people in need in the most severely affected regions of the Russian Federation. The Russian Government has informed the Commission that the proceeds of sales will be transferred into a special account in the Federal budget, which it intends to use for social purposes and the development of the Russian agricultural sector.

The Commission's assessment of the situation

As a result of the very poor Russian harvest and livestock production, which for many products is the worst since the end of the 1940s, the Commission is of the opinion that a part of the Russian population is in severe and urgent need of assistance in the form of food supplies. Therefore, great efforts must be made to ensure that the first delivery of food is sent to the Russian Federation promptly.

The Commission's proposal

On the basis on the Russian request for food, the Commission submits the present proposal to the Council as a matter of urgency. The proposal is based on Article 43 of the EC Treaty. The proposed Regulation lays down the basic conditions for the programme, comprising the supply of products free of charge, either coming from Community intervention stocks or purchased on the Community market:

- 1 million tonnes of wheat,
- 500 000 tonnes of rye,
- 50 000 tonnes of rice,
- 150 000 tonnes of beef,
- 100 000 tonnes of pork,
- 50 000 tonnes of skimmed milk powder.

The cost of the programme would be borne by the Guarantee Section of the EAGGF.

With the exception of pork, which will be bought on the open market after a tender procedure, the Commission will mobilise the products from EU intervention stocks. Private operators responsible for the transport of the products from Europe to the Russian ports or the Russian border will be chosen following a tender procedure.

In the second phase, the necessary implementing Regulations will have to be adopted by the Commission in accordance with the relevant Management Committee procedures.

The gross cost of this operation is estimated at about 470 million ECU. Taking account of savings of around 70 million ECU on storage and other costs, this would leave a net budgetary requirement of about 400 million ECU. At a meeting on 24 November 1998, the two branches of the Budgetary Authority (Council and Parliament) agreed that the net cost of the food supply programme should be financed on the 1998 budget, by placing available appropriations of 400 million ECU in a new budget line in the context of Supplementary and Amending Budget No 1/98. Appropriations which have not been used at the end of 1998 should be the subject of a carryover to the 1999 financial year.

The Commission does not have the capacity to exercise control over the execution of the programme inside the Russian Federation. However, it will do all that it can to ensure that the operation is conducted correctly and that appropriate measures are taken by the Russian Federation to ensure proper execution of the programme. The Commission will call on outside technical assistance for monitoring, auditing, control and evaluation, including on the territory of the Russian Federation. It emphasises that, despite all the precautions which have been and will be taken, the operation inevitably involves inherent risks.

It is for the Russian Government to prepare a detailed plan for the execution of the programme (in particular in relation to the allocation to needy regions and details of distribution channels and control measures). The Russian Federation will give all assurances that the products are distributed to the population in need in a number of specified regions, in accordance with the Russian plan regarding the execution of the programme. This plan will be finalised in co-operation with the Commission for inclusion in the Memorandum of Understanding. The products will be distributed to Russia in several portions. The Russian Government will prepare regular reports on the execution of the programme, which will be transmitted to the Commission, which will examine them and forward them to the Member States and the Court of Auditors.

The Commission recalls that the Council is able to ask for the opinion of the Court of Auditors on this proposal for a Regulation. The Commission is asking the Court of Auditors to carry out on-site checks upstream, in particular concerning the specific arrangements agreed in the Memorandum of Understanding, and during the course of the operation, as provided for in the Memorandum. Deliveries may be suspended at any moment on the basis of its conclusions. They may also be suspended if irregularities are found as regards the provision or destination of matching funds.

If the Commission receives evidence which gives it reason to doubt whether the obligations of the Russian Government set out in the Russian programme which will form a part of the Memorandum of Understanding are being fully respected, the Commission will suspend the operation.

Memorandum of Understanding

A Memorandum of Understanding on the implementation of the programme has been initialled by the European Commission and the Government of the Russian Federation.

In addition to rules regarding the operational part and parties' responsibilities etc., the Memorandum includes certain provisions and conditions which will be required in order to ensure that the objectives of the programmes are attained and that the programme is correctly executed:

- The Russian Government has submitted to the European Community the list of regions in need as well as the plan regarding the allocation of products by region. This allocation per region will subsequently be the subject of an official published decision of the Government of the Russian Federation. In addition, a technical appendix to the Memorandum will be agreed between the parties comprising the elements relevant for the implementation, in particular the transport arrangements. These documents will be a part of the Memorandum of Understanding.
- The Russian Government will ensure transparency and full control of all operations from the take-over of the commodities to the ultimate points of distribution of sales and will prepare regular reports on the implementation of the programme, which will be transmitted to the Commission.
- The European Community will supply the products free of charge CIF to the Russian ports or free at frontier to the Russian border. The Russian Government will cover the cost of unloading the products.
- The products will be exempt from customs duties and other taxes, charges and licensing when imported into Russia. Veterinary/sanitary and other border control procedures will be simplified.
- The Russian Government will designate, and submit to, the Commission for approval, the bodies and/or operators which will be responsible for reception, transport, processing and distribution of the goods to the final destinations on behalf of the Russian Government.
- The products included in the programme will be sold at the prevailing local market prices in the regions where there are food shortages.
- The proceeds obtained from the sales will be placed on a special account opened and managed by the Ministry of Finance of the Russian Federation for social purposes.
- The Russian Government will ensure that the products included in the programme are not re-exported and that it will not export the same commodities.
- The products included in the programme will be delivered to Russia in several subsequent steps.
- The Commission retains the right to suspend the operation if it receives evidence which gives it reason to doubt that the obligations of the Government of the Russian Federation set out in the Memorandum of Understanding are being fully respected.
- As regards the outside technical assistance for monitoring, auditing, control or evaluation of the operation the Russian authorities will provide the necessary cooperation as regards the steps to be taken within the territory of the Federation. This must be specified in the Memorandum of Understanding.

WTO aspects

International food aid transactions are in principle neither considered as subsidised exports, nor as actions that circumvent the export subsidy commitments of the WTO and thus do not fall within the scope of the Community's export subsidy commitments. The Commission will present its programme to Russia as a bilateral food aid transaction covered by Article 10(4) of the WTO Agreement on Agriculture. This entails notification of the programme to the FAO Committee on Surplus Disposal, and compliance with its established procedures.

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THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to the proposal from the Commission,

Having regard to the opinion of the European Parliament,

Whereas the Commission has agricultural products in stock as a result of intervention measures;

Whereas there are already considerable gaps in the supply of certain agricultural products to the Russian market, which are likely to become worse in the coming months;

Whereas the international community is already mobilised to deal with this situation and the Union must also assume its responsibilities;

Whereas agricultural products should therefore be made available to Russia in order to improve its food supply position, taking account of the diversity of local situations and without compromising the trend to a free market in food; whereas moreover as an exceptional measure it is intervention products that should be sent in the first place to Russia either as they are or after processing; whereas it should finally also be possible to mobilise agricultural products on the Community market where no intervention stocks are available;

Whereas this operation will help to improve the precarious situation of the Russian population and at the same time help to regularise the agricultural markets;

Whereas requirements to ensure that the operation is properly carried out should be laid down and provision made for supply to be staggered; whereas particulars of the actual organisation of the operation, including product destination, must be set out in a memorandum to be concluded between the Community and Russia; whereas under the memorandum the Russian authorities must be responsible for selling the products on local markets at prices that do not disturb them and for using the net receipts for social measures;

Whereas the Commission should be authorised to negotiate and conclude this agreement; whereas to help achieve the ends of the operation the Commission should be authorised to take all necessary action, including deferral or suspension of supply according to the difficulties encountered, if the requirements set are no longer being met;

Whereas the Commission is calling on outside technical assistance for monitoring, auditing, control and evaluation of the proper conduct of the operation, including on the territory of the Russian Federation; whereas, for reasons of urgency, the Commission may use restricted procedures or private contracts, in particular for monitoring and control;

Whereas, despite all the precautions which have been and will be taken, the operation inevitably involves inherent risks;

Whereas rules applying to the execution of the operation should be adopted by the Commission through the procedures in force for common agricultural policy purposes;

Whereas in view of the need it is imperative that products reach their destination as soon as possible; whereas supply should begin immediately and its cost be met by the Guarantee Section of the European Agricultural Guidance and Guarantee Fund,

HAS ADOPTED THIS REGULATION:

Article 1

1. Under the terms of this Regulation free supply shall be made to Russia of agricultural products as referred to in Article 3 that are either available following intervention or if not so available will be mobilised on the Community market.
2. The products shall be supplied to the neediest regions as identified by joint agreement between the Community and Russia.
3. Supply shall be staggered as determined in consultation with the Russian authorities.
4. The terms of the operation shall be the subject of a memorandum between the Community and Russia negotiated and concluded by the Commission. They shall include, on the responsibility of the Russian authorities, sale of the products supplied on local markets at prices whereby the regional market will not be disturbed and also the principle of exclusive allocation of the net receipts of sales to social measures. Exceptionally the products supplied may be distributed free to the neediest people of the regions concerned.

The memorandum shall also cover assistance and cooperation by the Russian authorities in any monitoring, auditing, control and evaluation activities to be carried out within Russian territory, in particular by the Court of Auditors or by outside bodies delegated by the Commission for the purpose.

Article 2

1. The products shall be supplied unprocessed or after processing in the Community.
2. The measures may also relate to foodstuffs available or which may be obtained on the market by payment with products coming from intervention stocks and belonging to the same group of products.

3. Supply costs, including transport to ports or frontier points, unloading excluded, and where appropriate processing in the Community, shall be determined by public tendering procedure or, for reasons of urgency or routing difficulty, by restricted tendering procedure.
4. Export refunds on agricultural products shall not be granted on products supplied under this Regulation.

Article 3

The maximum quantities for free supply shall be:

- 1 000 000 tonnes of common wheat of breadmaking quality,
- 500 000 tonnes of rye of breadmaking quality,
- 50 000 tonnes of milled rice,
- 100 000 tonnes of pig carcasses,
- 150 000 tonnes of beef carcasses,
- 50 000 tonnes of skimmed milk powder.

Article 4

1. The Commission shall be responsible for execution of the operation under the terms of this Regulation.

The Commission shall defer execution of one or more instalments of the operation or suspend it if it is not ensured that the operation is being carried out satisfactorily, in particular if the provisions of the memorandum referred to in Article 1 (4) are not being respected.

It shall take all necessary action to ensure that supply is effected at the stage planned.

The Commission shall, by means of open or restricted invitations to tender or private contracts, as provided for in the Financial Regulation, call on outside technical assistance for monitoring, auditing, control and evaluation of the proper conduct of the operation, including on Russian territory.

2. Detailed rules for the application of this Regulation shall be adopted in accordance with the procedure laid down in Article 23 of Regulation (EEC) No 1766/92 or, as appropriate, the corresponding articles of the other regulations on the common organisation of markets.

Article 5

The book value of agricultural products from intervention shall be determined in accordance with the procedure laid down in Article 13 of Council Regulation (EEC) No 729/70¹.

Article 6

Action under this Regulation shall be covered by Article 3 of Regulation (EEC) No 729/70, including the costs arising from the application of the last subparagraph of Article 4(1) of this Regulation.

Article 7

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

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

Done at Brussels,

*For the Council
The President*

¹ OJ L 94, 28.4.1970, p. 13. Regulation last amended by Regulation (EC) No 1287/95 (OJ L 125, 8.6.1995, p. 1).

ANNEX

Basis of calculation

The value of the products (except pigmeat) is their book value in public storage, depreciation taken into account. For pigmeat it is the estimated market price value plus 100 EUR/tonne (abattoir margin).

Estimation of the net savings on storage and financial costs (owing to lower average quantities in public storage during the financial year) is based on staggered removal of products from storage during the first months of 1999. The saving on export refunds on pigmeat is calculated using the refund rate given in letter of amendment No 1 to the PDB.

Calculations

(millions of euros)

A. Product values

Wheat:	1 million t x 105.8 EUR/t	=	105.8
Rye:	500 000 t x 59.8 EUR/t	=	29.9
Rice:	83 000 t ¹ x 210.6 EUR/t	=	17.5
Milk powder:	50 000 t x 790 EUR/t	=	39.5
Beef:	150 000 t x 500 EUR/t	=	75.0
Pigmeat:	100 000 t x 1 100 EUR/t	=	110.0

377.7

B. Supply costs²

Cereals:	1 500 000 t x 25 EUR/t	=	37.5
Rice:	50 000 t x 50 EUR/t	=	2.5
Milk powder:	50 000 t x 50 EUR/t	=	2.5
Beef:	150 000 t x 200 EUR/t	=	30.0
Pigmeat:	100 000 t x 200 EUR/t	=	20.0

92.5

C. Sub-total (A + B)

470.2

D. Savings (technical and financial costs of storage; refunds on pigmeat)

Cereals	- 9.7
Rice	- 1.4
Milk powder	- 1.6
Beef	- 18.8
Pigmeat	- 40.0

- 71.5

E. Net total (C + D)

398.7

¹ Paddy equivalent of 50 000 tonnes of milled rice.

² To be determined by tendering procedure. The cost estimate includes a maximum of EUR 8m for financing expenditure on technical assistance for monitoring, auditing and control of the operation.

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