



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 10.06.1998
COM(1998) 366 final

98/0213 (CNS)

Proposal for a

COUNCIL REGULATION (EC)

derogating from Regulation (EEC) No 1765/92 establishing a support system for
producers of certain arable crops as regards the set-aside requirement for the marketing
year 1999/2000

(presented by the Commission)

EXPLANATORY MEMORANDUM

1. INTRODUCTION

This proposal to the Council and the Parliament aims at derogating for one campaign, the 1999/2000 campaign, from the normal basic rate of set-aside.

The decision must be taken well in advance, and requires urgency, as producers must know before their sowings (for certain crops, these sowings start in August) how much of their arable land they will have to withdraw from production.

2. BACKGROUND

The producers of certain arable crops can benefit from per hectare compensatory payments, provided they withdraw part of their land from production. This part is expressed as a percentage of the total number of hectares for which an aid demand is lodged. This percentage of compulsory set-aside is fixed at 17.5% in the basic regulation for arable crops (Regulation 1765/92).

Small producers opting for the simplified scheme established by the same regulation are exempt from the obligation of set-aside.

Since the beginning of the 1992 reform, the Commission made several proposals in the past to derogate from this basic rate.

The rates in force over the past years as decided by the Council of Ministers were as follows :

crop year	1993	1994	1995	1996	1997	1998
set aside rate(1)	15%	15% (20%)	12% (17%)	10%	5%	5%

(1) For 94 and 95, the fixed set-aside rate is indicated between brackets.

Producers can choose to set aside more land than their obligation, under the voluntary set-aside scheme. This scheme has gained importance in recent years, following the reduction in the compulsory set-aside rate. For the last campaign (1997/98) the total number of hectares set aside under the arable crops regime amounted to 4 million, slightly more than 50% of which were under voluntary set-aside.

3. CURRENT SITUATION AND OUTLOOK

The end of the current campaign (1997/98) is characterized by low prices, both on internal and world markets, and growing **intervention stocks**. The latter could amount to 15 million t on 30 June 1998, an unprecedented level since the 1993/94 campaign.

Production forecasts for the 1998 harvest (1998/99 marketing year) are still highly speculative at this stage. Most sources indicate that this coming harvest would produce a crop of approximately the same magnitude as last year or slightly above./ Estimates range from 201 to 211 million t, according to sources.

With no dramatic changes expected on the side of **cereal uses**, one can expect a growing **surplus situation** also for the 1998/99 marketing year, and, based on yield trend assumptions, probably also for 1999/2000.

These developments come at a moment where **world markets** are relatively weak and expected to stay vulnerable in the short run. Despite these short term weaknesses, the longer term (post 2000) outlook for the world cereal market remains good, according to available forecasts by all major forecasting institutes, although the strong optimism still presented a year ago by some sources has been dampened in the meantime.

With growing surpluses on the internal market and a relatively gloomy picture as far as short term world market prospects are concerned, there is a risk that new important intervention stocks could pile up over the next two years, in addition to the quantities already in intervention stocks this year.

4. CONCLUSION

A new piling up in intervention stocks must be avoided. Under unchanged policies (status quo hypothesis), it would create a heavy burden over the coming years and lead to an untenable situation post 2000. And even under a reform along the lines of the Commission's Agenda 2000 it would represent a serious handicap at the start of the reform.

To avoid a new piling up of intervention stocks all possible means should be used, including taking the best advantage of all export possibilities, in particular if the world market should start to improve again in the course of the next two marketing years. This is the intention of the Commission.

Set-aside is an instrument at the disposal of the Council of Ministers, through the fixation of the compulsory set-aside rate. This year's set-aside will influence plantings in 1998/99 and have an effect in the 1999/2000 marketing year.

In the view of the Commission, it would not appear to be necessary to increase the rate for compulsory set-aside back to the basic rate of 17.5%, taking into account also the reform proposals made in the context of Agenda 2000. That is why the Commission makes a proposal to derogate from the basic rate for another campaign. The proposed rate should contribute to rebalancing the market by reducing cereals production by 8 million tonnes. This roughly corresponds to 1.5 million hectares of cereals. Taking into account that half the area currently counted as voluntary set-aside would come back as obligatory set-aside, effectively withdrawing this portion of land from production requires an increase in the 5% set-aside rate applied over the last two years of 5 points to 10%.

Proposal for a

Council Regulation (EC) No .../98

of

derogating from Regulation (EEC) No 1765/92 establishing a support system for producers of certain arable crops as regards the set-aside requirement for the marketing year 1999/2000

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Articles 42 and 43 thereof,

Having regard to the proposal from the Commission,

Having regard to the opinion of the European Parliament¹

Whereas the support system for producers of certain arable crops established by Regulation (EEC) No 1765/92² provides that, in order to qualify for compensatory payments under the general scheme, producers must set aside a predetermined percentage of their arable land; whereas this percentage has to be reviewed to take account of production and market developments;

Whereas, since the introduction of this system, the cereals market has achieved a better balance as a result of an increase in Community consumption; whereas this situation, together with the very low level of stocks and firm prices on the market has resulted in the rate of compulsory set aside for the preceding marketing years being set at a level appreciably below that predetermined:

Whereas recent developments on the Community and world cereal markets has resulted in a reversal in the trend as regards the level of public stocks and prices on the world market in particular;

¹ Opinion delivered on

² OJ L 181, 1.7.1992, p. 12. Regulation as last amended by Regulation (EC) No 2309/97 (OJ L 321, 22.11.1997, p. 3.).

Whereas this situation must be taken into account when fixing the compulsory set-aside rate for the 1999/2000 marketing year; whereas this rate should be fixed at a level sufficient to prevent too high a build-up in public stocks immediately before the first marketing year in which Agenda 2000 applies,

HAS ADOPTED THIS REGULATION:

Article 1

For the 1999/2000 marketing year, notwithstanding Article 7 of Regulation (EEC) No 1765/92: the set-aside requirement referred to in paragraph 1 of that Article shall be set at 10%.

Article 2

This Regulation shall enter into force on the third 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

FINANCIAL STATEMENT

Date: 10/06/98

1. BUDGET HEADING: B1-10

APPROPRIATIONS:
ECU 17.255 million (1998)

2. TITLE: Council Regulation derogating from Regulation (EEC) No 1765/92 establishing a support system for producers of certain arable crops as regards the set-aside requirement for the 1999/2000 marketing year.

3. LEGAL BASIS:

4. AIMS: To fix at 10% the rate of compulsory set-aside for the 1999/2000 marketing year as part of the support system for producers of certain arable crops.

5. FINANCIAL IMPLICATIONS	PERIOD OF 12 MONTHS (ECU million)	CURRENT FINANCIAL YEAR (98) (ECU million)	FOLLOWING FINANCIAL YEAR (99) (ECU million)
5.0 EXPENDITURE			
- CHARGED TO THE EC BUDGET (REFUNDS/INTERVENTION)	-156	-	-
- NATIONAL AUTHORITIES			
- OTHER			
5.1. REVENUE			
- OWN RESOURCES OF THE EC (LEVIES/CUSTOMS DUTIES)			
- NATIONAL			
	2000	2001	2002
5.0.1 ESTIMATED EXPENDITURE	-156	-	-
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? YES/NO

6.3 WILL FUTURE BUDGET APPROPRIATIONS BE NECESSARY? YES/NO

OBSERVATIONS:

ANNEXE TO THE FINANCIAL STATEMENT

The proposed measure has consequences for the 2000 budget.

The calculation of the budget cost of the measure is thus made in relation to an early draft of the budget for 2000 with set-aside at 5% (maintenance of current rate).

A. Impact on Area Aid

An initial calculation is made on the basis of an estimate of the breakdown between areas set-aside and cultivated for the 1999/2000 marketing year using an obligatory set-aside rate fixed at 5%. The same calculation is then made using a set-aside rate increased to 10%. The difference between the two results is the cost of the measure for the budget lines in question.

With a set-aside rate of 10% it is felt that only the areas under cereals will change significantly. The area set-aside will increase by approximately 1.5 Mio hectares. The area under cereals will accordingly fall by about 1.5 Mio hectares.

Such changes will have no effect on small producers since they do not set land aside; the budget data concerning them will thus remain unchanged. In the case of professional producers, the budget consequences are the result of the difference between the two estimates (5% and 10% set-aside) which are obtained by multiplying the aids corresponding to the various crops and to the set-aside by the areas and by the historic average corresponding yields.

	Aids	Yield in t/ha at 5% set-aside	Yield in t/ha at 10% set-aside
Maize	54.34 ECU/t	7.84	7.84
Other cereals	54.34 ECU/t	4.92	4.91
Protein crops	78.49 ECU/t	5.96	5.96
Set-aside	68.83 ECU/t	4.54	4.69
Oilseeds	Balance of aid per hectare for 1999/2000	254.2 ECU/ha	254.2 ECU/ha

The following results are thus obtained:

Type of Measure	5% set-aside Anticipated cost ECU million	10% set-aside Anticipated cost ECU million	Difference ECU million
Professional producers			
Aid for maize from the maize base	782	741	-41
Aid for cereals other than maize	7367	6963	-404
Aid for oil seeds	1079	1079	0
Aid for protein crops	590	590	0
Aid for set-aside of land	1232	1778	+546
TOTAL			+101

Additional Cost: ECU 101 million

B. Impact on expenditure linked to the disposal of cereals

For the 1999/2000 marketing year, the effect of a 5% increase in the set-aside rate is to reduce the area under cereals by approximately 1 500 000 hectares.

The result is production of 198 million tonnes of cereals, while production would be 206 million tonnes with a set-aside of 5%.

The consequence for the 2000 budget of this drop in production is a saving of ECU 257 million, of which ECU 22 million is saved on export refunds and ECU 235 million on costs associated with intervention.

The cost of refunds falls, in particular because some of the exports will come from intervention stocks and their cost is thus charged to the budget item for intervention costs.

The fall in intervention costs themselves will result from the fall in stocks (final stocks reduced by 8 million tonnes compared to the final stocks at 5% set-aside). The savings will be greatest on common wheat (ECU 92 million), barley (ECU 86.5 million) and maize (ECU 35 million) (other cereals : ECU 22 million).

SAVING: ECU 257 million

C. TOTAL SAVING : 257-101 = ECU 156 MILLION

ISSN 0254-1475

COM(98) 366 final

DOCUMENTS

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03 06 14 17

Catalogue number : CB-CO-98-389-EN-C

ISBN 92-78-37215-3

Office for Official Publications of the European Communities

L-2985 Luxembourg