COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT FROM THE COMMISSION TO THE COUNCIL ON
THE CAUSES OF FLUCTUATIONS ON THE COMMUNITY MARKET
IN SEEDS IN THE LAST THREE YEARS

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EXPLANATORY MEMORANDUM

This report was prepared following a request by the Council on the 26th April 1977, in order to study the reasons for the fluctuations which have characterised the Community market in seeds during the last three years and to present solutions to remedy these.

A. The report reviews:

a) the basic orientation of the common regulation of the market;

b) the determining influence of the accession of Denmark, an important producer of seed

c) the development of the Community and world market since 1973 (high prices, overproduction, high level of stocks, restabilisation of the market since early 1976).

B. The report proposes certain amendments to the basic regulation, in a first approach to achieve stability in this market:

- definition at Community level of multiplication contracts, and the registration of these contracts;
- the fixing of a pluri-annual aid (for two marketing seasons).

C. The report indicates that these amendments will not resolve all the problems by themselves, and that the Commission intends to continue the study of these problems, particularly those involving hybrid maize for sowing.

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I. INTRODUCTION

1) The common organization of the market in seeds was set up by Council Regulation (EEC) No 2358/71 of 26 October 1971 (OJ No 246/71, p. 13). It was implemented for the first time for the 1972 harvest.

Its scope was amended in 1973, 1974 and 1975 and since then has covered the products listed in the CCT under the following numbers:

07.05 A - Dried leguminous vegetables, shelled, whether or not skinned or split, for sowing

10.05 A - maize, hybrid, for sowing

12.01 A - oil seeds and oleaginous fruit, whole or broken, for sowing

12.03 - seeds, fruit and spores, of a kind used for sowing.

It should be noted that the Regulation does not include the market in cereal seeds other than those of hybrid maize.

2) The Regulation provides for the possibility in certain circumstances of granting aid per quintal for the production of certified seeds, in order to ensure a fair income to producers.
The level of the aid should be fixed by the Council before 1 August of the year preceding the harvest year.

With respect to hybrid maize, provision has been made for a system of reference prices to allow the possible application of a countervailing charge on imports to alleviate the consequences of offers made at abnormally low prices.

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3) At the present time (see Regulation (EEC) No 1168/77) three categories of seeds produced in the Community qualify for aid:

a) fodder seed (grasses and small legumes);

b) large legumes;

c) oil seeds.

4) Fodder seeds are the main group of seeds that qualify for aid (about 85 % of production) and the greatest price fluctuations have occured in this group.
On account of its nature fodder seeds have no alternative use (seeds of low nutritional value) a factor which has a considerable impact on a market governed by supply and demand, whereas the other two types of seed mentioned above can be used either as feed or for the oil production. Price fluctuations can be due to other causes than those which affect fodder seed.

5) The Community is a net importer of fodder and it depends on non-member countries in particular for its protein supplies. The development of fodder production, both as regards quantity and quality, is based on the development of the seed sector which provides other agricultural sectors with the seed needed for sowing and the highest quality varieties that can be obtained by scientific research.

6) Production conditions differ widely from one region of the world to another due to the differences in climate, in the structure of holdings and in the contractual arrangements.
In the Community a feature of seed production is that all seeds must be certified before being marketed and production is always based on a seed propagation contract. The contract obliges the producer under contract to deliver all production to the other contracting party who in turn is obliged to buy the entire production. Community cooperatives have a strong influence on the seed industry.

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7) In other production regions in the world, most seeds are not certified and are not produced under propagation contracts. Consequently, large areas are devoted to the production of seed and their ultimate use (seed or fodder) is not decided until shortly before the harvest, depending on the price of the seeds and of alternative crops. However, international trade is mainly based on certified seed.

II. The world market in recent years

1) In the early 1970's, world production of fodder seed was relatively insignificant and market supply fairly limited. This caused world prices to rise with the result that areas under seed were substantially extended in production regions.

2) Due to inherent difficulties stemming from the pluriannual nature of most fodder seed (which must be sown one or two years before harvest), differences in climate and methods of production (large areas that could be used for fodder production), increases in production occurred at different times in different areas (see Annex I).

3) This resulted in a steady increase in production between 1973 and 1974, with the result that total availibility of seed in main production regions amounted to about 651.300 tonnes in 1975 compared with about 543.600 tonnes in 1973 (see Annex III). This occurred just when the world economy went into recession which led to a decline in investment . This affected the demand for seeds for non-agricultural purposes, such as grass verges, lawns, etc. which represents about 40 % of demand in the EEC.

4) Stocks built up during this period and in 1975 were double what they had been in 1973. On account of the production surplus stocks remained high in 1976 despite the decline in production in 1975 (see Annex II).

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5) The high level of prices peaked in 1973 (see Annex IV) and in the autumn of 1974, when it became clear that production was in excess of demand, the trend of prices changed and then started to fall rapidly, reaching a low at the end of 1975 when the market began to pick up.

6) The low level of prices in previous years led to a decline in areas sown in 1976. The widespread 1976 drought helped the seed market to recover, and the 1976 crop was generally sold at reasonable prices.

7) The poor yield and the destruction of large areas of grazing land in 1976 led to a greater call on stocks, so that in the 1977/78 marketing year supplies will be at a reasonable level and prices will remain stable on the world market.

III. Community seed market

1) When the Regulation establishing a common organization of the market in seeds was adopted the EEC market was in deficit, with a low self-supply rate, and had to cover its needs with imports from non-member countries. The expansion of the Community in 1973 led to a fundamental change in the production and marketing structures for fodder seeds.
The entry of Denmark, one of the world's main fodder seed producers, exporting about 80 % of its production, enabled the EEC market to achieve a satisfactory self-supply level.

2) The high level of prices which provoked the increase in world production also led to a substantial increase in Community production (about 15 % for fodder seed between 1973 and 1974). As prices remained high until the autumn of 1974, sowing for the 1975 harvest was encouraged and areas

were still further extended. When it became clear that the market was in surplus, producers found it too costly to destroy part of the production in order to reduce production in the following year, and Community production in 1975 expanded still further compared with 1974 (+ 10 %) and stocks increased (see Annex I).
It should be noted that production expanded proportionally throughout the Community, with the highest increase in Denmark and Holland.

3) The surpluses helped to build up substantial stocks which between 1973 and 1976 increased by 275 % (see Annex II). Stocks amounted to 70 % of total comsumption and for some species even exceeded 100 %. The general level of stocks in the Community is usually maintained at 30 % of annual consumption to meet needs in case of a poor crop.

4) In 1976 the Community seed market started to recover at the same time as the world market. Estimates of areas sown were substantially down on the two previous years, particularly in Denmark.

5) The drought, which had been very severe in many regions of the Community, considerably strengthened demand on account of the need to restore damaged grazing land, etc. This was accompanied by a parallel rise in prices which despite a slight drop at the end of 1976 are at present at a generally satisfactory level (see Annex IV).

6) The area sown in spring 1976 for 1977 and 1978 harvests declined under the pressure of large stocks. The estimated 20 % increase in consumption in the summer of 1976 due to the need to re-sow withered pasture land, etc. has now been brought back to about 10 %. Consequently, estimates for the 1977/78 marketing year show that 1977 production, combined with existing stocks, will be sufficient to ensure a balanced supply at satisfactory prices.

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7) The production of hybrid maize for sowing has expanded considerably in recent years, and in 1974 the EEC became a net exporter of this product. However, the Community continued to import certain types of maize seed of special qualities from the United States, and seed of ordinary qualities from Eastern countries for propagation under contract (see Annex V).

As the Community market has developed satisfactorily, particularly with regard to the production of Community varieties and the fairly low level of imports, there has never been any need to apply the system of countervailing charges.

8) The Commission has, however, realized that it would be difficult to introduce the reference price system, particularly on account of a certain lack of consistency between the factors which form the basis of Community rules (see Regulation (EEC) No 1578/72) and actual market conditions.

Free-at-frontier prices should be recorded for seed that is freely marketed and comes up to certain standards, but in fact:

- about 80 % of imports take place under propagation contracts and thus are not included in records of free-at-frontier prices;
- of the remaining 20 %, part does not come up to the standards laid down by Community rules.

Further, the countervailing charge provided for (reference price minus free-at-frontier offer price plus customs duties) which should be paid if the free-at-frontier offer price plus customs duties is lower than the reference price is less important in view of the 4 % rate bound under GATT.

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IV. CONCLUSIONS

1. The main features of the Community market in seeds are:

   a) its interdependence with the world market,

   b) cyclical price fluctuations arising from the pluriannual nature of production,

   c) the difficulty of effectively controlling the quantities produced, in particular the part of the production propagated under contract in non-member countries,

   d) the consequent impossibility of adjusting the market rapidly to supply and demand.

   In view of these features, stress must be laid on the need for action to limit cyclical changes in production, improve market transparency and promote a policy of quality.

2. After enlargement, Community production moved from a deficit situation to one of self sufficiency. This change, which coincided with extremely firm prices on the international market (shortage in 1971/73), led Community production into surplus.
   For this reason, the Commission undertook a full and detailed review of the common organization of the market in seeds at both government and professional levels.

3. As a result of this review, the Commission found that there was general agreement on the following points:

   - to maintain a Community market accessible to the world market,
   - to maintain a system of production aid,
   - the need to work for greater stability of the market while observing the above two principles.

   It should, however, be noted that, in the framework of the Advisory Committee on Seeds, agricultural circles have several times expressed the wish that import licences should be introduced for fodder seeds and hybrid maize in order to obtain better knowledge and control of trade with non-member countries.

4. Action taken to this effect mainly concerns:

- the provision of aid for Lolium perenne L. (which accounts for about 40 % of Community production of fodder seed) varied according to quality (persistence),
- the improvement of Community statistics, mainly with a view to drawing up balances for each marketing year and seed production forecasts,
- a study of the structure of the Community and world markets (production costs, contractual relationships, price structures etc.) to be carried out by an ad hoc working group of the Advisory Committee.

5. Although this work has already improved market transparency, the Commission considers that to achieve a more stable market changes should be made to the basic Regulation.

These changes relate to:

- a better understanding of contractual links between the Community and world markets (information on rules governing propagation contracts in non-member countries),
- gearing the aid to the pluriannual nature of fodder seed production with a view to improving production planning.

6. In conclusion, before the 1978/79 marketing year begins, the Commission will present proposals amending the basic Regulation in respect of:

a) the definition of propagation contracts at Community level and the compulsory registration of such contracts with non-member countries,

b) the fixing of pluriannual aid (two marketing years).

The Commission will continue to study the different problems referred to in this report, in particular those concerning the basic rules for hybrid maize. In another connection, the Commission will continue to work for closer coordination between management of the Community market and relationships with non-member countries (the equivalence of marketing conditions, derogations in respect of imports) which could help to stabilize the Community market.

Annexe I — Production de semences fourragères (mondiale) en 100 kg
Annex I — Production of herbage seeds (world) "
Anlage I — Erzeugung von Futtersaatgut (Welt) "
Allegato I — Produzione di sementi (mondo) "
Bijlage I — Produktie van saad van voeder gewassen (wereld) "
Bilag I — Produktion of frø af fuder planter (verden) "

	1972	1973	1974	1975	1976 2)
CEE, EEC, EWG, CE, EEG, EF	1.167.000	1.117.000	1.291.000	1.420.000	886.000
U.S.A.	2.604.000	2.742.000	2.762.000	2.707.000	2.310.000
CANADA	261.000	394.000	301.000	251.000	315.000
NEW ZELANDE 1)	210.000	168.000	256.000	199.000	120.000
TOTAL	4.242.000	4.421.000	4.610.000	4.581.000	3.631.000

Source, Source, Quelle, Fonte, Kilde, Bron : Statistic CEE, Seed Crops 1974, 1975, 1976 (Statistical Reporting Service, United States Department of Agriculture). Communication from the Canada Department of Agriculture, Communication from the New Zeelande Ministry of Agriculture and Fisheries.

1) Récolte en janvier
Harvest in Jannuary
Ernte im Januari
Raccolta in Gennaio
Oogst in januari
Høst i januar

2) Chiffre provisoire
Provisionals figures
Vorlaüfige Zahlen
Voorlopige cijfers
Cifre privvisorie
Foreløbige tal.

Annexe II	Stocks des semences fourragères (mondial) 100 kg
Annex II	Stock of herbage seeds (world) "
Anlage II	Lagerbestände von Futtersaatgut (Welt) "
Allegato II	Stocks di sementi foraggere (mondo) "
Bijlage II	vooraad van saad van voedergewassen (wereld) "
Bilag II	Lager af frø af foderplanter (verden) "

	1973	1974	1975	1976
CEE, EEC, EWG, EC, CEE EF	356.000 1)	432.000 2)	807.000 3)	961.000 3)
U.S.A.	538.000	766.000	1.014.000	996.000
CANADA	121.000	147.000	115.000	no inf.
NEW ZEALAND	no inf.	no inf.	no inf.	no inf.
TOTAL	1.015.000	1.345.000	1936.000	1.957.000

Sans, without, ohne, senza, zonder, uden : 1) D ; I ; B ; 2) D ; B ; 3) B ;

Source, source, Quelle, Fonte, Bron, Kilde : Statistic CEE, Seed Crops 1974, 1975, 1976 (Statistical Reporting Service, U.S. Dept. of Agriculture) Communication from Canada Department of Agriculture, Communication from New Zealand Ministry

Annexe III	Disponibilité des semences fourragères	(mondiale)	100 kg
Annex III	Supply of herbage seeds	(world)	"
Anlage III	Verfügbarkeit von Futtersaatgut	(Welt)	"
Allegato III	Disponibilità di sementi foraggere	(mondo)	"
Bijlage III	Beschikbaarheid van saad van voeder gewassen	(wereld)	"
Bilag III	Forsyning med frø af foderplanter	(verden)	"

	1973	1974	1975	1976 1)
CEE, EEC, EWG, EG, EF CEE	1.473.000	1.723.000	2.227.000	1.847.000
U.S.A.	3.280.000	3.528.000	3.721.000	3.306.000
CANADA	515.000	448.000	366.000	315.000
NEW ZEALAND	168.000	256.000	199.000	120.000
TOTAL	5.436.000	5.955.000	6.513.000	5.588.000

Source, Source, Quelle, Fonte, Bron, Kilde : Statistic CEE, Seed Crops 1974, 1975, 1976 (Statistical Reporting Service, U.S. Depart. of Agric.) Communication from the Canadian Department of Agriculture, Communication from the New Zealand Ministry of Agriculture and Fisheries.

1) Chiffres provisoires
Provisional figures
Vorläufige Zahlen
Cifre provvisorie
Voorlopige cijfers
Foreløbige tal

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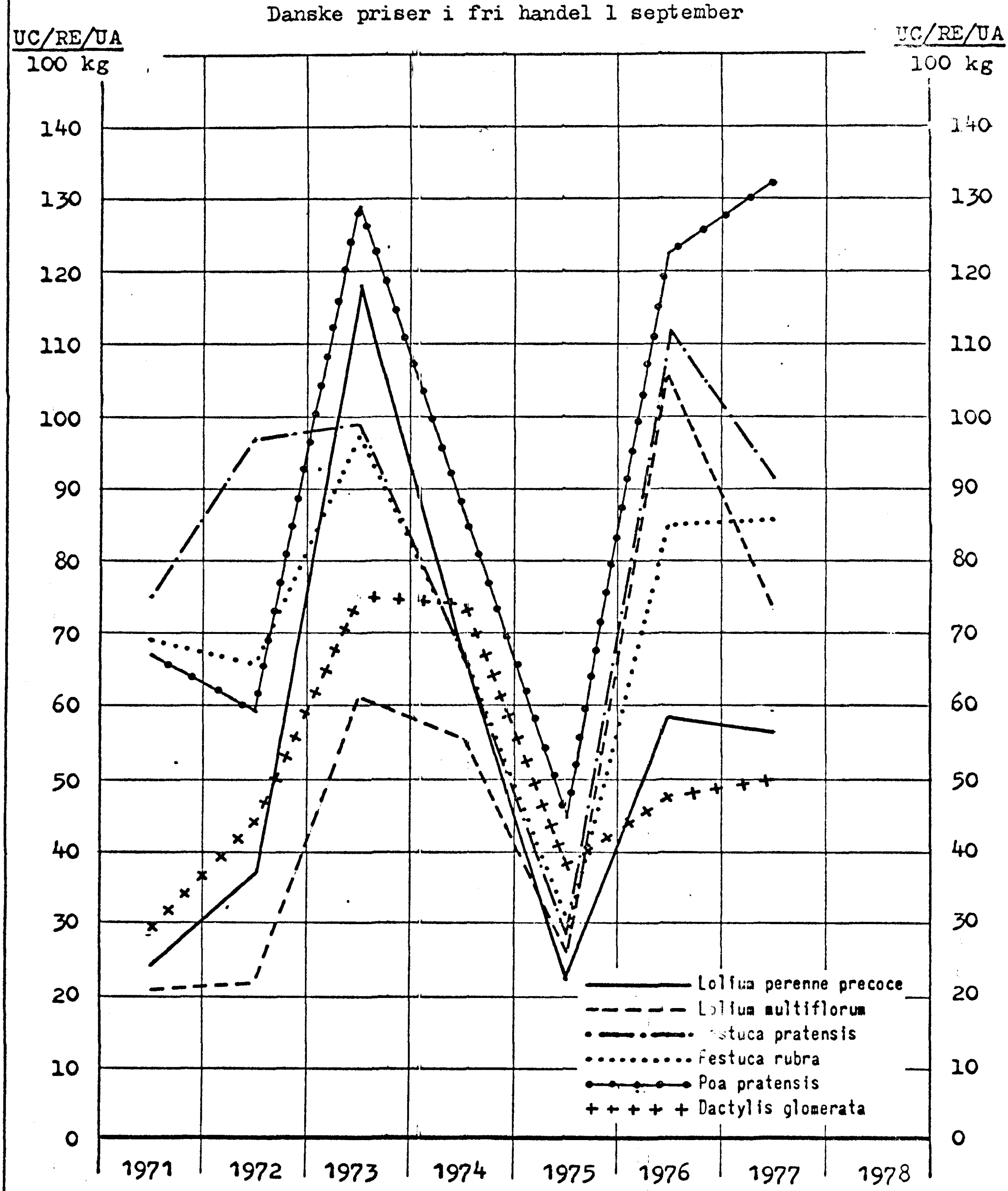
Annexe IV.

Prix danois marché libre 1 septembre
Danish free market prices 1 september
Dänische Preise im freien Handel 1 september
Prezzi danese sul mercato libero 1 settembre
Deense prijzen, vrije markt 1 september
Danske priser i fri handel 1 september



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Annexe V — Bilan Communautaire maïs hybride 100 kg.
Annex V — Community balance of hybride mais "
Anlage V — Gemeinschaftsbilanz von Hybridmais "
Allegato V — Bilancio comunitario delle mais ibrido 100 kg
Bijlage V — Gemeenschappelijke balans van mais hybriden 100 kg.
Bilag V — Fælleskabsoversigt over hybridmajs 100 kg.

	Production Erzeugung Produzione Produktie Produktion	Importation Einführ Importazione Import Import	Exportation Ausführ Esportazione Export Export
1972 (Ø 6)	1.056.000	167.000	50.000
1973 (Ø 6)	1.459.000	125.000	49.000
1974 (Ø 9)	1.057.000	149.000	105.000
1975 (Ø 9)	1.109.000	97.000	136.000
1976 (Ø 9)	1.400.000 1)	119.000	145.000

Source - Source - Quelle
Fonte - Bron - Kilde : Statistique CEE, NIMEXE : 1972, 1973, 1974, 1975, 1976 (Udenrigshandel, Aussenhandel, Foreign trade, Commerce extérieur, Commercio estero, Buitelandse handel)

1) Estimation - Schätzung - Stima - Vooruitzichten - Beregnet

Annexe VI
Annex VI
Anlage VI
Annesso VI
Bijlage VI
Bilag VI

Bilan communautaire semences fourragères 100 kg
Community balance of herbage seeds "
Gemeinschaftsbilanz von Futtersaatgut "
Bilancio comunitario delle sementi foraggere "
Gemeenschappelijke balans van voeder zaadgoed "
Fællesskabsoversigt over frø af foderplanter "

	Production 1) 1970/71 – 71/72 – 72/73 Ø(6)	Estimation consommation 2) 1970/71 – 71/72 – 72/73 Ø(6)	Production 3) 1973/74 – 74/75 – 75/76 Ø (9)	Estimation consommation 4) 1973/74 – 74/75 – 75/76 Ø (9)	Importation 5) 1973/74 – 74/75 – 75/76 Ø (9)	Exportation 6) 1973/74 – 74/75 – 75/76 Ø (9)
Arrhenatherum elatius (L)	–	–	1.100	(900)	800	400
Dactylis glomerata L.	10.900	19.900	51.000	34.800	4.700	14.200
Festuca arundinacea Schreb.	7.700	12.100	6.400	11.700	5.600	600
Festuca ovina L.	4.500	–	5.600	8.800	8.900	1.200
Festuca pratensis Huds.	21.900	37.000	66.100	55.100	6.600	10.200
Festuca rubra L.	31.100	63.000	136.100	110.100	23.300	24.400
Lolium multiflorum Lam.	152.300	176.600	242.800	287.300	60.500	22.100
Lolium perenne L.	77.300	206.700	425.300	363.600	45.800	20.400
Lolium x hybridum Hausskn.	6.100	7.500	11.400	14.200	3.900	100
Phleum pratense	6.000	20.600	23.300	50.400	18.900	1.900
Poa nemoralis	–	–	400	(500)	(–)	100
Poa pratensis	23.200	53.400	76.700	61.500	16.100	19.600
Poa trivialis	–	–	12.300	8.900	300	4.300
Medicago sativa	78.500	99.000	109.600	84.200	21.100	51.500
Trifolium pratense L.	50.000	51.700	48.300	52.700	7.600	7.900
Trifolium repens L.	2.100	17.600	27.400	35.700	17.000	7.100
Vicia sativa	10.200	(108.000)	24.200	(131.300)	144.600	1.900
TOTAL	481.800	873.100	1.268.000	1.311.700	395.700	187.900

1 ; 3 : Production
Erzeugung
Produzione
Produktie
Produktion

2 ; 4 : Estimation of consumption
Schätzung der Verbrauch
Stima della produzione
Verbruiks vooruitzichten
Beregnet forbrug

5 : Importation
Einfuhr
Importazione
Import
Import

6 : Exportation
Ausfuhr
Esportazione
Export
Export