

COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMISSION REPORT TO THE COUNCIL ON THE SITUATION IN THE COMMUNITY COLZA MARKET

COMMISSION REPORT on the situation in the Community colza market -

1. Introduction

Within the framework of the price decisions for 1979/80, the following declaration was entered in the Minutes of the Council meeting of 18-22 June 1979 :

"The Council

1. takes note of the Commission statement that in accordance with the undertaking entered into in 1978 it will
 - continue diligently its examination of the use of varieties of colza seed of the "00" type
 - submit a report on this subject to the Council before 31 December 1979, combined, if it proves necessary in the light of experience, with a proposal laying down the measures to be applied;
2. invites the Commission to propose before 1 October 1979, appropriate measures to improve the situation of the Community market in colza seed and colza oil so that regular outlets may be ensured for the products obtained pending the necessary resumption of internal consumption in the Community."

2. Economic situation in the colza sector

It is worth recalling the significant features of the Community colza sector. The acreage devoted to colza has averaged some 500 000 ha since 1973, with only small variations from this norm (see Table I). However, this total comprises a decrease in acreage between 1974 and 1978 in all the original Member States except Germany, a tripling of the United Kingdom area and an increase in the Danish area.

Production has fluctuated more than area, from 938 000 t to 1,230 mio t, due to variable climate conditions and yields. The principal producer Member States, in decreasing order of importance, are France, Germany, the United Kingdom and Denmark. The seed is processed in the first three Member States mentioned, with almost the entire Danish crop being processed in Germany.

Imports have varied from year to year; having fallen since 1973 following the anti-erucic^{acid} campaign, they have increased over the past three years (Table II and III) reflecting a renewed demand for colza in the Community. In 1978/79 imports reached 419 000 t.

The figures available for 1979/80, moreover, show that this trend towards increased demand is continuing. The Community also imports some 250 000 t of colza meal annually.

It is therefore clear that the Community is not self-sufficient in colza seed. Moreover the oil extracted from colza only represents approximately 11 % of annual Community consumption of vegetable oils, whereas the meal constitutes a mere 4 % of

Community requirements of protein oilmeal.

The basic elements of the support system for colza are the following.

Oilmills buy colza seed from Community producers at a price which is at least equal to the intervention price. They then receive a subsidy which is equal to the difference between the target price and the world market price for this seed. The subsidy brings the cost to the oilmill of Community seed down to world market price levels, so that the oil and meal produced from seed of Community origin are competitive with those supplied by third countries, which are imported into the Community with little or no import duty payable.

3. Review of the system

Having carried out a thorough examination of the colza market, in collaboration with the Member States, the Commission has concluded that the common organization of the market for colza works efficiently, and in the interests of the producer, the crushing industry, and the consumer.

- i) The support system for colza and rapeseed has permitted the sale each year of the quantity produced, without difficulty; in support of this conclusion it should be noted that sales into intervention represent only a minimal part of the crop, never having exceeded 1 % of the total produced (see Table IV).
- ii) In spite of the fact that oilmills have a free choice between oilseeds of Community origin and imports, the operation of Community preference has always provided industry with sufficient incentive to buy all the colza produced in the Community.
- iii) The cost to the EAGGF has never been excessive (Table V), particularly when compared to the cost of support for other products which compete with colza for the soil, which are in surplus and which, unlike colza seed, have to be exported at great expense.
- iv) Except during the period when the campaign against erucic acid was at its peak, the sale of the oil produced from Community colza seed has taken place without difficulty, and there has been no abnormal build-up of stocks. The sale of colza meal has never presented the least problem.

For these reasons the Commission concludes that there is no reason to justify any major changes to the existing support system for colza. However, some minor amendments might be appropriate.

Commission position

4. The Commission is aware that the Italian oilseed crushing industry is unable to purchase sizeable quantities of colza seed of Community origin. The reason for this is that on the one hand, Italian production of colza seed is minimal, and on the other, the Italian oilseed crushing industry is situated far from the production zones in the Community.

In order to permit the Italian crushing industry to adapt to the new situation created by the common organization of the market, given its distance from Community colza-producing zones, a temporary aid was granted to the industry in question from 1967, to compensate for transport costs. This aid was proposed for three years, but remained in force until 1974. Its effect was to create a demand for colza seed in Italy. Since its abolition, very little colza seed of Community origin has been purchased in Italy, and Italian demand for colza oil has decreased over the same period.

The Italian government has called, on many occasions, for the reintroduction of a transport aid for Community colza seed bought by the Italian crushing industry. The Commission is not prepared to take any action at all concerning this request. Such a measure would be contrary to the principle of free movement of goods in natural conditions of price formation. It would create an artificial demand for colza seed in Italy and consequently risk disturbing the market for this product.

The Commission considers that a logical way to ensure the availability of oilseeds of Community origin to the Italian crushing industry could lie in the production of sunflower seed.

The Community produces annually between 120 000 t and 220 000 t of sunflower seed. This production is concentrated in France and Italy, and has always been sold without any problem. Imports of this seed into the Community rarely exceeded 250 000 t annually prior to 1976. Since that year, however, they have increased remarkably and may reach a million t for 1979.

In Italy, imports have increased from 1 000 t in 1976 to 16 000 in 1977 and 90 000 t in 1978.

Production in the Community has not increased concurrently with demand because the price relationship between sunflower seed, on the one hand, and other crops which compete for the soil - particularly maize - on the other, has not been well-balanced and has caused sunflower production to be neglected.

If this price relationship were adjusted, an increase could be expected in sunflower seed production in Italy. In that case, the Italian industry, because of its geographical location, would be advantageously situated to purchase this seed.

5. Several other questions have been raised by Member States concerning problems which are specific to these countries. The first question concerns the varieties of colza known as double-00 (low in erucic acid and in glucosinolates) which are mentioned in the declaration under point 1 above.

In accordance with that engagement, the Commission has pursued its study of the different aspects of the double-00 varieties of colza in order to evaluate their interest for the Community and to ascertain whether Community measures to promote their production would appear to be appropriate.

The conclusion of the Commission is that the new varieties of colza in question represent a marked improvement compared to those normally used, in view of the quality of colza meal which they yield. It appears therefore to be in the interests of the Community that this source of high-quality protein for animal feed should develop.

However, certain problems have inhibited the widespread use of double-00 colza. The major drawback is that so far double-00 varieties exist only for spring colza. Spring colza represents only 13 % of Community production, and is primarily produced in Denmark, so use of double-00 seed is effectively limited to that country. Moreover, yields are still lower than for the conventional varieties; and in spite of its higher nutritional value, animal feedstuffs manufacturers are not yet prepared to pay a premium for double-00 colza meal. Producers are not therefore encouraged to expand this production.

In its memorandum to the Council on this subject, the Danish Government proposed that an additional subsidy be paid for double-00 colza, to promote its development. The Commission does not favour this solution, both because of the problems of control which it would raise, and because of the expenditure which would be incurred when use of double-00 seed prevailed throughout the Community. Moreover, the Commission is not convinced that further expansion of the area devoted to spring colza is likely in Denmark.

However, the Commission would be prepared to consider proposing a special temporary premium at intervention for double-00 seed, for perhaps three years.

This would give the producers who used double-00 seed the possibility to claim a higher price for their product. It would present no major problem regarding control. It should not give rise to additional expenditure from the EAGGF. In view of the Community preference comprised in the subsidy system, the Commission does not believe that such a measure would increase the quantities presented to intervention.

However, in order to avoid any such risk, the Commission could study the possibility of widening the gap between the basic intervention price and the target price, by increasing the latter, by a greater percentage than the former - which, incidentally, would contribute to greater market fluidity in this sector.

As mentioned above, double-00 varieties only exists for spring colza, but research is being carried out to develop double-00 winter seed. The Commission is prepared to propose that a greater financial contribution be made to this research by the Community. This could be done through the vegetable protein programme provided for in the Decision of the Council of 30 October 1978, on common programmes and coordinated programmes for agricultural research.

The next problem exists mainly in France and concerns a limited number of small crushing plants which are situated far from sources of imported seeds and are therefore obliged to crush only colza seed of Community origin. When crushing margins for colza are unfavourable over a prolonged period such plants are forced to operate at a loss, or close down, since they have not the possibility to use either imported colza seed or any other raw material.

While the Commission does not believe that the role of the support system for oilseeds is to guarantee the profit margins of the related industry, it does recognise the vulnerability of the small undertakings in question. An appropriate solution could lie in the amendment of the legislation in order to permit that if and when crushing margins were negative over a prolonged period, the subsidy of the day could be adjusted to ensure that it was sufficient to cover the cost of crushing the seed. This adjustment would not apply to subsidies fixed in advance. Its benefit would therefore be largely limited to the small, unfavourably - situated undertakings mentioned above, since larger plants tend to fix the subsidy in advance and rarely use the daily rate. Normally, only about 5 % of the harvest is crushed with the daily rate of subsidy, and the exceptional measure outlined above would appear unlikely to provoke any significant increase in this quantity.

In order to avoid impeding the normal process of integration which is taking place in the oilseed crushing industry, it would appear appropriate to limit such a measure to a period of, say, three years.

Apart from the possibility of providing for the adjustment described above, the Commission does not consider it appropriate to pursue the suggestions made in the French Note which was transmitted to the Commission on 18 September 1978. The main request is for the introduction of a system of intervention for colza oil when the French Note was examined in Council bodies it became apparent that such a system was not necessary to ensure the proper functioning of the common organisation of the market in colza seed. Nor is such a system desirable, because, being in addition to intervention for colza seed, the principle of a double guarantee for the same sector would be introduced, and, by ensuring a profitable margin for the industry crushing Community seed, a distortion would be promoted between this industry and that crushing imported seeds.

7. The last problem relates to the memorandum submitted recently by the British Government concerning the enterprises which use a new process to prepare colza for direct incorporation in animal feedingstuffs. Such use is not covered by the current support system.

In view of the fact that the Community is a net importer of colza seed, it is clear that producers have adequate outlets for their production. Further more, the Commission is dubious about the economic wisdom of a process which uses for animal feed a high quality oil such as colza oil. Finally, from an administrative point of view, the control of this utilisation would pose considerable problems. For these reasons, the Commission does not consider it appropriate to propose a change in the system on the lines suggested in the British memorandum.

TABLE I : Colza seed production in the Community

	'000 Hectares	'000 Tonnes
1973/74	516,4	1.058,3
1974/75	539,0	1.090,0
1975/76	489,6	937,9
1976/77	497,9	1.022,8
1977/78	495,8 ¹	953,1
1978/79	513,1	1.230,0

Source - EUROSTAT

TABLE II : Colza seed imports and exports 000 t

	Imports	Exports
1973/74	386	47
1974/75	167	220
1975/76	150	59
1976/77	399	46
1977/78	207	3
1978/79	419	3

Source - EUROSTAT

TABLE III : Colza seed crushed in the Community⁽¹⁾ t

	Community origin	Imports	Total
1973/74	964,493	361,445	1,325,938
1974/75	810,212*	163,141*	973,353
1975/76	832,380*	143,989*	976,369
1976/77	899,906	361,275	1,261,181
1977/78	841,546	215,345	1,056,891
1978/79	1,180,503	329,936	1,510,439

(1) Based on figures furnished by Member States for quantities put under control at oilmills

Source DG VI

* Figures uncertain, as absence of subsidy implied less control

TABLE IV : Quantities of colza seed bought into intervention

	tonnes
1973/74	0
1974/75	0
1975/76	4.830
1976/77	7.726
1977/78	2.083
1978/79	1.260

Source DG VI - Commission

TABLE V : EAGGF Expenditure on colza and sunflower seed (1)

	Expenditure on colza and sunflower seed	Colza and sunflower seed expenditure as a proportion of total EAGGF expenditure
1973	79,0 MUCE	2,3 %
1974	10,4 MUCE	0,4 %
1975	28,9 MUCE	0,6 %
1976	103,1 MUCE	1,7 %
1977	82,6 MUCE	1,2 %
1978	131,2 MUCE	1,5 %

Source - DG VI - Commission

(1) There is no breakdown on expenditure between these two seeds, but approximately 90 % of the total refers to colza seed.