

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(81) 446 final

Brussels, 10 September 1981

Proposal for a
COUNCIL REGULATION

on producer groups and associations thereof in the
cotton sector

(submitted to the Council by the Commission)

COM(81) 446 final

EXPLANATORY MEMORANDUM

INTRODUCTION

On 28 April 1981 the Commission submitted to the Council, pursuant to Protocol 4 annexed to the Act of Accession of the Hellenic Republic to the European Communities, a proposal for a regulation laying down the general rules for the system of aid for cotton and the minimum price for the 1981 /82 marketing year (COM(81)189).

The Commission is submitting the attached proposal to supplement the arrangements applicable to cotton under the said Protocol and thus enable the aims specified in paragraphs 2 and 4 of the Protocol to be achieved, namely:

- to support the production of cotton in regions of the Community where it is important for the agricultural economy;
- to permit the producers concerned to earn a fair income;
- to stabilize the market by structural improvements at the level of supply and marketing;
- to provide incentives for the formation and to facilitate the operation of producer groups and associations thereof.

The Commission would also point out that, under the terms of the Protocol, this system must apply to the entire territory of the Community and not only to Greece (some cotton, equivalent to about 1% of Community production, is also grown in Italy, in particular in Sicily and in the Pouilles).

I. Recognition of producer groups and associations thereof

The Commission proposes first of all that the general rules provided for in the abovementioned Protocol should comprise a code for the recognition of producer groups which will ensure that efficient procedures are followed and which will list the precise conditions for recognition so that such groups and associations comply with the requirements with the Protocol. These conditions are based on those laid down for other sectors in which Community incentives are offered for the formation of producer groups, and in particular the conditions specified in Regulation No 1360/78¹. These conditions relate to:

¹ OJ No L 166, 23.6.1978

- the marketing of members' entire production through groups and associations thereof;
- the exercise by the latter of adequate discipline over production and marketing;
- the minimum level of economic activity for such groups and associations;
- the rules governing the withdrawal of members.

II. Aid

The Commission proposes that two different kinds of measure should be included in the system of aid for structural improvements at the level of supply and marketing by producer groups and associations.

The first of these measures would be launching aid for the first five years following recognition. This aid would be similar in nature to that provided for producer organizations in other sectors under the Common Agricultural Policy. The aid would be granted for a period of five years and would be:

- in the case of producer groups, equal to 5, 4, 3, 2 and 1% respectively of the value of the produce marketed, provided this did not exceed the actual expenditure on formation and operation;
- in the case of associations, equal to 80, 80, 60, 40 and 20% respectively of actual expenditure on formation and operation, subject to an overall limit of 100 000 ECU per association.

The second measure would be aid covering up to 50% of the cost of the investments necessary for the implementation of the common rules on production and marketing and, in particular, investments in harvesting, ginning, storage and packaging equipment.

The Commission considers that such aid is needed to facilitate the formation of producer groups and associations whose purpose is the rationalization of production and marketing. If these activities are to be rationalized, certain investments specific to the production and marketing of cotton and beyond the means of individual undertakings (machinery for harvesting, ginning, storage and packaging) should be shared among the members of organizations which are sufficiently large to ensure that adequate use is made of the equipment in question.

The Commission takes the view that such aid is especially necessary since:

- cotton production, despite its specifically agricultural nature, is not included in Annex II of the Treaty and cannot therefore qualify for the investment aid provided for by other structural measures under the common agricultural policy (such as Directive 159/72/EEC on the modernization of farms and Regulation (EEC) No 355/77 on common measures to improve the conditions under which agricultural products are processed and marketed);
- the maintenance of cotton production is important not only as a source of income and employment in less-favoured regions of the Community but also as a valid alternative to some forms of agricultural production which may give rise to problems (e.g. certain fruit and vegetable crops). Another specifically agricultural feature is that cotton-growing enters into the annual rotation of crops.

The Commission considers, however, that investment aid for pooled equipment should be granted in such a way that rational and consistent use is still made of existing investments. The Commission proposes, therefore, that such aid should be granted under programmes which give a detailed analysis of the existing situation and the improvements planned. It also proposes that these programmes should be drawn up by the Member States and approved by the Commission, with the assistance of the Standing Committee on Agricultural Structure, in accordance with the Management Committee procedure.

III. Financial and general provisions

The Protocol stipulates that these measures should be financed by the Community.

1. The Commission proposes that the Community should refund to the Member State 40% of the aid granted pursuant to the Regulation. Over a five-year period, Community expenditure should amount to 17 million ECU, which, in view of the particular nature of these measures, would be financed from the Chapter of the Community Budget entitled "Expenditure in the agricultural sector".
2. Lastly, the attached proposal contains:
 - the measures necessary to ensure that the Commission is informed concerning the implementation of the system envisaged;
 - measures to ensure compliance with the rules governing competition in the sphere in question.

Proposal for a Council Regulation on producer groups and associations
thereof in the cotton sector

THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community,

Having regard to the Act of Accession of Greece to the
European Communities, and in particular paragraph 9 of Protocol 4,

Having regard to the proposal from the Commission,

Whereas the abovementioned Protocol states that, in order to stabilize the
market by structural improvements at the level of supply and marketing, the
system of aid to production should be supplemented by aid for producer
groups and associations thereof:

- which have been formed at the initiative of the producers themselves;
- which offer sufficient guarantee as to the duration and effectiveness
of their operations;
- which are recognized by the Member State concerned;

Whereas the said Protocol also stipulates that it is for the Council,
acting on a proposal from the Commission, to adopt the general rules
governing the abovementioned system;

Whereas it is essential, in the first instance, to lay down precise conditions for recognition so that the groups and associations meet the requirements of the said Protocol, particularly in respect of the duration and effectiveness of their operations; whereas, to this end, these conditions should include, in particular, centralized handling of all supplies, the exercise of adequate control over production and marketing, and the provisions necessary to ensure that the groups and associations have a sufficiently stable membership and an adequate level of economic activity;

Whereas the nature and the amount of the aid granted to groups and associations should also be specified; whereas an appropriate incentive for the establishment of groups and associations meeting the conditions laid down could take the form of aid granted to cover formation and operating expenses during the first five years and aid towards the investments necessary for the performance of their supply and marketing functions; whereas, to ensure that the system envisaged is implemented in all regions of the Community where it proves necessary, the granting of the abovementioned forms of aid should be made obligatory;

Whereas the aid granted towards the formation and operating expenses of associations should be subject to an overall ceiling, to take account of the fact that each of the groups belonging to such an association has already qualified or still qualifies for such aid; whereas the level of aid to be granted to organisations existing prior to the introduction of this system and the level of aid to be granted in the case of amalgamations of organisations already meeting the set requirements should also be fixed in a precise and appropriate manner;

Whereas it should be stipulated that investment aid should be granted in respect of structures to be used by groups or associations or to be used jointly by their members; whereas it should also be ensured that such aid contributes towards the systematic improvement of existing structures; whereas, therefore, it is appropriate to stipulate that such aid should be granted under programmes comprising a thorough analysis of the situation in the sector and the improvement envisaged, such programmes being drawn up by the Member States and approved by the Commission under a procedure ensuring close cooperation between the Member States and the Commission; whereas the appropriate body for such cooperation is the Standing Committee on Agricultural Structure set up by Article 1 of the Council Decision of 4 December 1962 on the coordination of policies on the structure of agriculture¹;

Whereas, in order that Community expenditure entailed by the implementation of the system envisaged should be governed by adequate financial rules and procedures, the provisions of Council Regulation (EEC) No 729/70 of 21 April 1970 on the financing of the common agricultural policy², as last amended by Regulation (EEC) No 3509/80³, should be made applicable to this specifically agricultural sector;

Whereas the planned duration and estimated cost of Community aid should be specified; whereas aid granted for a period of five years and at an estimated cost of 17 million ECU could make an effective contribution towards structural improvements in the supply of cotton and towards the adaptation of cotton production to market requirements;

Whereas the Commission must be able to verify that the measures taken by the Member States to implement the planned scheme/^{comply}with the conditions thereof; whereas the Commission must also be able to assess each year the practical results achieved by implementation of the said system,

¹OJ No 136 of 17.12.1962, p. 2892/62

²OJ No L 94 of 28. 4.1970, p. 13

³OJ No L 367 of 31.12.1980, p. 87

HAS ADOPTED THIS REGULATION:

Article 1

This Regulation shall apply to cotton, not carded or combed, of heading No 55.01 of the Common Customs Tariff.

TITLE I: Provisions relating to producer groups and associations thereof.

Article 2

1. For the purposes of this Regulation, "producer group" shall be taken to mean any organization of cotton producers which has been set up at the initiative of the producers themselves with the aim of:

- furthering the centralization of supply;
- adapting supply to market requirements;
- placing at the disposal of member producers adequate technical facilities for the production, qualitative improvement and marketing of the products in question,

and which has been recognized by the Member State concerned in accordance with Article 3.

2. For the purposes of this Regulation, "association" shall be taken to mean any organization consisting of recognized producer groups which pursues the same objectives as the latter and which has been recognized by the Member State concerned in accordance with Article 3.

Article 3

1. The Member States shall recognize producer groups and associations thereof, including those in existence when this Regulation comes into force, which apply for recognition and which fulfil the following conditions:

(a) their statutes shall make it obligatory for producers who are members of groups and for groups which are members of associations:

- to provide the information requested by the group or association concerning harvests and availabilities;
- to apply the rules which the group or association has adopted on production and marketing;
- to market their entire production through the group or association.

However: not

- this latter obligation shall apply to that part of production in respect of which producers had concluded sales contracts or agreed to options before joining the group, provided that the said group was informed, before the producer concerned became a member, of the extent and duration of the obligations thus contracted;
- the group or association may authorise its members to market part of their production themselves on a contractual basis, in accordance with rules which they shall lay down and the implementation of which they shall supervise;

- (b) they shall give proof of adequate economic activity. For this purpose they must:
- represent at least:
 - 10 producers, in the case of groups;
 - 100 groups, in the case of associations,
 - control a volume of unginmed cotton production amounting to at least:
 - 175 tonnes in the case of groups;
 - 17 500 tonnes in the case of associations.
- However, by way of exception to these provisions, the associations constituted in Italy must represent recognized producer groups existing at the level of each production region.

- (c) they shall have legal personality or sufficient legal capacity to exercise rights and be subject to obligations in accordance with national law;

- (d) their statutes shall include provisions to ensure that members of a group or of an association who wish to withdraw from membership may do so:

- after they have been members of the group or of the association for a minimum of three years following recognition thereof;
- and on condition that they inform the group or the association in writing of their intention to withdraw not less than twelve months before so doing.

These provisions shall apply without prejudice to national laws or provisions designed to protect the group or association or their creditors, in specified cases, against any financial consequences which might result from the withdrawal of a member or to preclude withdrawal of a member in the course of the financial year;

- (e) they shall keep separate accounts for the activities in respect of which they are recognized. These separate accounts and those relating to other activities of the group or association are to be kept so that the aid provided for in Article 4 can be calculated and the use made of the aid provided for in Articles 4 and 5 can be ascertained;

- (f) they shall not hold a dominant position within the common market;

- (g) they shall ^{not} over the whole range of their activities, exercise any discrimination between producers which runs counter to the operation of the common market or the achievement of the general objectives of the Treaty and shall not, in particular, exercise any discrimination connected with nationality or place of establishment.

2. For the purposes of paragraph 1(a), "marketing" shall cover the following operations relating to the product referred to in Article 1:

- centralization of supply;
- preparation for sale;
- supply to bulk buyers.

Article 4

The Member States:

- shall take a decision on recognition within three months of the date on which recognition is requested;
- shall make known to the Commission, within two months, any decision taken on the granting, refusal or withdrawal of recognition.

Article 5

1. The Member States shall grant aid to recognized groups and associations, in respect of the five years following the date of their recognition, to encourage their formation and to facilitate their operation. The amount of such aid shall be paid during a period of seven years following the date of recognition.
2. The amount of aid granted to producer groups in respect of the first, second, third, fourth and fifth years:
 - shall be equal to 5%, 4%, 3%, 2% and 1% respectively of the value of the products marketed through these groups; and
 - may not exceed the actual formation and operating expenditure as defined by Commission Regulation (EEC) No 2084/80 on the definition of the actual formation and operating expenditure of producer groups and associations thereof¹.
3. The amount of the aid granted to associations:
 - (a) shall be equal to a maximum of 80%, 80%, 60%, 40% and 20% of the actual formation and operating expenditure for the first, second, third, fourth and fifth years respectively;
 - (b) may not, however, exceed a total of 100 000 ECU.
4. The value of the products referred to in paragraph 2 shall be calculated for each year on the basis of:
 - the annual volume placed on the market in accordance with the third indent of Article 3(1)(a);
 - the average producer prices obtained.
5. The aid provided for in this Article shall be granted:
 - (a) to groups and associations formed before the entry into force of this Regulation only in proportion to the additional expenditure incurred in complying with the requirements of Article 3;
 - (b) to groups and associations formed from existing associations already complying with the requirements of this Regulation only:
 - if they are the result of an amalgamation designed to achieve more fully the objectives specified in Article 2;
 - in proportion to the expenditure incurred in their formation (expenditure on preparation and on the drawing up of their constitutional instruments and statutes).

¹ OJ L 203, 5.8.1980, p. 9

Article 6

1. To contribute towards structural improvements at the level of supply and marketing and towards the harmonization and improvement of quality, the Member States shall grant to recognized producer groups and associations thereof aid for investments:
 - (a) necessary for:
 - the implementation of the common rules referred to in the second indent of Article 3(1)(a);
 - the marketing referred to in the third indent of Article 3(1)(a);and in particular investments in harvesting, ginning, storage and packaging facilities;
 - (b) which are to be used by the group or association, or the use of which is to be shared by their members;
 - (c) which form part of programmes approved in accordance with Article 9.
2. The aid provided for in paragraph 1 shall not exceed 50% of the cost of the investment made.

TITLE II: Development and rationalisation programmes

Article 7

1. The programmes shall relate to the development and rationalization of cotton production and marketing. They shall be drawn up by the Member States and shall cover all or part of their territory.
2. The programmes shall provide at least the following information:
 - (a) definition of the geographical area and the activities concerned;
 - (b) the initial situation and the tendencies which may be deduced therefrom, particularly as regards:
 - cotton production (quantity, area, importance relative to total production, structure, existing position with regard to mechanization);
 - present and prospective outlets;
 - the existing position as regards supply, marketing and preparation for sale, and in particular the capacities of the undertakings concerned (including ginning establishments);
 - (c) the requirements met by the programme and the objectives pursued by the latter, including:
 - capacities to be achieved overall and per region concerned, broken down according to the various types of establishment and the various stages in their completion;
 - the profitability criteria to be applied;

- (d) the effects of the programme on farm incomes in the geographical area concerned;
- (e) the means employed to achieve the objectives of the programme, in particular: the total amount of investment (including the method of calculation); the distinction between the sums allocated for modernization and those for development; the distinction between the sums earmarked for the various types of investment and for the various regions concerned;
- (f) the rate of aid planned by the Member State for the various types of investment;
- (g) the estimated time required for the execution of the programme, which should not be more than 5 years.

Article 8

1. The programmes and any modifications thereto shall be forwarded to the Commission by the Member State or States on the territory of which they are to be carried out.
2. At the request of the Commission, the Member State or States involved in the programme shall submit supplementary background information in the context of the details required under Article 7.

Article 9

1. Within ^{six} months of the date of receipt of each programme or modifications thereto, and on condition that all the details specified in Article 7 have been provided, the Commission shall take a decision as to their approval, in accordance with the procedure laid down in Article 22 of Council Regulation (EEC) No 355/77 of 17 February 1977 on common measures to improve the conditions under which agricultural products are processed and marketed.
2. When a programme is approved in accordance with paragraph 1, the Commission shall, if necessary, determine by agreement with the Member State concerned which aspects of the programme should receive attention in the report referred to in the second indent of Article 15.

TITLE III: Financial and general provisions

Article 10

The provisions of the regulations on the value of the unit of account and the exchange rates to be applied for the purposes of the common agricultural policy, on the one hand, and Regulation (EEC) No 729/70, on the other hand, shall apply for the purposes of this Regulation.

¹ OJ No L 51, 23.2.1977, p. 1

Article 11

1. The estimated time for carrying out the measures provided for in this Regulation is five years as from the date of its entry into force.
2. Before the end of the period referred to in paragraph 1, this Regulation shall be re-examined by the Council on the basis of a report from the Commission concerning the results of its application.
3. Community expenditure on the application of this Regulation is estimated at 17 million ECU.

Article 12

The Community shall refund to the Member States 40% of their expenditure on the measures provided for in Articles 5 and 6.

Article 13

1. Applications for reimbursement shall relate to expenditure incurred by the Member States during one calendar year and shall be submitted to the Commission before 1 May of the following year.
2. The decision to grant Community aid shall be taken in accordance with Article 7(1) of Regulation (EEC) No 729/70.
3. Payments on account may be granted by the Commission.
4. The detailed rules for the application of Article 12 and of this Article shall be adopted in accordance with the procedure laid down in Article 13 of Regulation (EEC) No 729/70.

Article 14

This Regulation shall not exclude the right of the Member States to adopt, within the sphere of this Regulation, additional aid measures, the conditions or procedures for the granting of which differ from those laid down in this Regulation or the amounts of which exceed the upper limits laid down therein, provided that these measures are taken in accordance with Articles 92, 93 and 94 of the Treaty.

Article 15

The Member States concerned shall communicate to the Commission:

- the laws, regulations and administrative provisions implementing this Regulation not later than one month after their adoption;
- a report on the results of the application of this Regulation each year before 31 March, and for the first time before 31 March 1982.

Article 16

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

ANNEX

A. Producer Groups

Cotton production in the EEC (Greece and Italy) stands at about 380.000 tonnes per year.

It is estimated that some 650 producer groups will be formed in the first five years, with an average 175 tonnes per group, or about 30 % of total production coming from groups.

Hypothesis:

Formation of 130 producer groups per year who will receive a Member State aid of respectively 5, 4, 3, 2 and 1 % of the value of production marketed during 5 years.

The price of cotton is 735 ECU/tonne.

Value of annual production:

$$130 \times 175 \times 735 = 16,721,250 \text{ Mio ECU}$$

Year	Group	Percentage of Member State aid						total	Mio ECU
		5 %	4 %	3 %	2 %	1 %	Community Reimbursement 40 %		
1	130	0.835	-	-	-	-	0.835	-	
2	130	0.835	0.668	-	-	-	1.503	0.334	
3	130	0.835	0.668	0.501	-	-	2.004	0.601	
4	130	0.835	0.668	0.501	0.334	-	2.338	0.802	
5	130	0.835	0.668	0.501	0.334	0.167	2.505	0.935	
6			0.668	0.501	0.334	0.167	1.670	1.002	
7				0.501	0.334	0.167	1.002	0.668	
8					0.334	0.167	0.501	0.401	
9						0.167	0.167	0.200	
10							-	0.067	
	650	4.175	3.340	2.505	1.670	0.835	12.525	5.010	

B. Associations of producer groups

Given that the establishment of an association requires at least 100 producer groups one can expect the formation of the first association in the second year of the implementation of this Regulation at the earliest.

Hypothesis: One association is established each year.

The aid granted per year would be at most 100,000 ECU, of which the Community reimburses 40 %, or 40,000 ECU/year
or 4 associations: total 160,000 ECU.

C. Harvesting machines

Calculation hypothesis:

One machine per group, or 130 machines per year.

Cost of machine: 111.400 ECU

Average Member State aid: 35 %

Community reimbursement: 40 %

$$130 \times 0.111 \times 35 \% \times 40 \% = 2.029 \text{ Mio ECU/year}$$

$$\text{or } 10.145 \text{ Mio ECU for 5 years.}$$

D. Other investments

The total estimated cost for 5 years for the other investments are 7.5 Mio ECU, of which 50 % falls to the Member State, or 3.75 Mio ECU. The Community reimburses 40 %, or 1.5 Mio ECU, or 0.3 Mio ECU per year.

SUMMARY

Year	Mio ECU									
	A		B		C		D		Total	
	M.S. Costs	ECC Reimb.	M.S. Costs	ECC Reimb.	M.S. Costs	ECC Reimb.	M.S. Costs	ECC Reimb.	M.S. Costs	ECC Reimb.
1	0.835	-	-	-	5.073	-	0.750	-	6.658	-
2	1.503	0.334	0.100	-	5.073	2.029	0.750	0.300	7.426	2.663
3	2.004	0.601	0.100	0.040	5.073	2.029	0.750	0.300	7.927	2.970
4	2.338	0.802	0.100	0.040	5.073	2.029	0.750	0.300	8.261	3.171
5	2.505	0.935	0.100	0.040	5.073	2.029	0.750	0.300	8.428	3.304
6	1.670	1.002		0.040		2.029		0.300	1.670	3.371
7	1.002	0.668							1.002	0.668
8	0.501	0.401							0.501	0.401
9	0.167	0.200							0.167	0.200
10		0.067								0.067
	12.525	5.010	0.400	0.160	25.365	10.145	3.750	1.500	42.040	16.815