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Report

drawn up on behalf of the Committee on Agriculture

on the proposal from the Commission of the European Communities to the Council (Doc. 1-894/83 - COM(83) 562 final) for a regulation introducing a tax on certain oils and fats

Rapporteur: Mr C. GOERENS

PE 87.319/fin.

Or. De.

English Edition

By letter of 14 October 1983 the President of the Council of the European Communities requested the European Parliament, pursuant to Article 43 of the EEC Treaty, for an opinion on the proposal from the Commission of the European Communities to the Council for a Council Regulation (EEC) introducing attacks on certain oils and fats .

On 25 October 1983 the President of the European Parliament referred this proposal to the Committee on Agriculture as the committee responsible and to the Committee on Budgets for its opinion; at its meeting of 3 November 1983 the Committee on Agriculture appointed Mr GOERENS rapporteur.

The committee considered the Commission proposal and the draft report at its meetings of 22/23 November 1983, 26 January and 1/2 February 1984. At its meeting of 28 February 1984 it decided by 25 votes to 8 with one abstention to recommend Parliament to approve the Commission's proposal without amendment.

The committee then adopted the motion for a resolution as a whole by 25 votes to 8 with one abstention.

The following took part in the vote:

Mr Curry, chairman; Mr Colleselli and Mr Delatte, vice-chairmen; Mr Goerens (deputizing for Mr Nielsen), rapporteur; Mrs Barbarella (deputizing for Mr Papapietro), Mr Battersby, Mr Blaney, Mr Bocklet, Mrs Castle, Mr Clinton, Mr Dalsass, Mr Eyraud, Mrs Herklotz, Mr Helms, Mr Hord, Mr Jürgens, Mr Keating (deputizing for Mr Lynge), Mr Lücker (deputizing for Mr d'Ormesson), Mr Maher, Mr Marck, Mrs Martin, Mr Mertens, Mr Pranchère, Mr Protopapadakis (deputizing for Mr Kaloyannis), Mr Provan, Mrs Quin, Mr Sälzer (deputizing for Mr Früh), Mr Simmonds, Mr Stella (deputizing for Mr Ligios), Mr Sutra, Mr Tolman, Mr Vernimmen, Mr Vgenopoulos and Mr Vitale.

This report was tabled on 29 February 1984.

The opinion of the Committee on Budgets is attached.

C O N T E N T S

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The Committee on Agriculture hereby submits to the European Parliament the following motion for a resolution together with explanatory statement:

A

Motion for a resolution

closing the procedure for consultation of the European Parliament on the proposal from the Commission of the European Communities to the Council for a Regulation (EEC) introducing a tax on certain oils and fats

The European Parliament,

- having regard to the proposal from the Commission to the Council (COM(83) 562 final) (1),

- having been consulted by the Council pursuant to Article 43 of the EEC Treaty (Doc. 1-894/83),

- having regard to the report of the Committee on Agriculture and the opinion of the Committee on Budgets (Doc.1-1507/83),

- having regard to the communication from the Commission to the Council on the common agricultural policy (COM(83) 500 final),

- having regard to the vote on the Commission proposal,

A. having regard to its resolution of 18 November 1983 (2) on the communication from the Commission to the Council on the common agricultural policy,

B. having regard to its resolution 26 March 1982 (3) embodying the opinion of the European Parliament on the proposals from the Commission of the European Communities to the Council on the fixing of prices for certain agricultural products and on certain related measures (1982/1983),

(1) OJ No. C 289, 25 October 1983, p.6
(2) OJ No. C 342, 19 December 1983, p.121 - Curry report
(3) OJ No. C 104, 26 April 1982, p. 25 - Curry report

C. having regard to its resolution of 12 January 1983 (1) on the proposal from the Commission of the European Communities to the Council for a regulation (EEC) amending Regulation No. 136/66/EEC on the establishment of a common organization of the market in oils and fats and on the olive oil sector

D. having regard to its resolution of 17 November 1982 (2) on Mediterranean agriculture and the problems of the enlargement of the EEC towards the south,

E. having regard to its resolution of 10 March 1983 (3) on the proposals from the Commission of the European Communities to the Council for regulations concerning the fixing of prices for certain agricultural products and certain related measures (1983/84),

F. having regard to the current imbalance in the market for animal and vegetable oils and fats in the Community,

G. seeking to reduce the high market costs in the oil and fats sector,

H. whereas oilseed products are becoming increasingly important in the Community, not only for the balance of trade in oils and fats (seed oil deficit 78%) but also for proteins (deficit 95%),

I. whereas the trade agreements concluded in the sixties with third countries introduced very liberal import arrangements because of given the low level of self-sufficiency of the Community even at that time (no restrictions on seeds and oilcake, low rates of duty between 5% and 15% for oils),

J. whereas, because of low world market prices, these liberal import arrangements were accompanied by a policy of supporting the internal market to develop Community production and ensure adequate earnings for producers,

(1) OJ No. C 42, 14 February 1983, p.36 - Vgenopoulos report
(2) OJ No. C 334, 20 December 1982, p. 63 - Sutra report
(3) OJ No. C 96, 11 April 1983, p. 54 - Mouchel report

K. whereas the liberal import regulations together with their supporting measures have, as a result of the situation in the dairy sector and olive oil sector, since become a disruptive element within the entire Community oil and fats market and have led to a considerable imbalance in the marketing and price ratios between olive oil, other vegetable oils and fats and butter,

1. Notes with satisfaction that the Commission is taking steps to reduce the anomalies in the oils and fats sector,

2. Points out that since 1979 the cultivation of oilseeds to produce vegetable fats has virtually doubled in the Community both in terms of the area under cultivation and production, but that the Community is still heavily dependent on imports of oilseeds and vegetable oils and fats (except olive oil),

3. Observes that these anomalies are mainly due to vegetable oils and fats largely derived from cheaply imported oilseeds,

4. Notes that the tax on oils and fats proposed by the Commission is non-discriminatory under the terms of GATT but regrets that this measure is not likely to produce a marked improvement in the price ratio between butter and other oils and fats in the long term,

5. Takes the view that the aims of a better price ratio between butter and other oils and fats and the strengthening of Community preference could be better achieved by negotiations with the USA and other supplier countries on restricting on the volume of oilseeds, oils and fats imported,

6. Believes, therefore, that at the present time the introduction of a tax on oil and fats is acceptable as a provisional measure, provided that at the same time negotiations offering prospects of success within the foreseeable future are conducted on restricting the volume of imports,

7. Recognizes that the Commission proposal forms part of a package of measures covering the entire oils and fats sector and that rejection of the tax on oils and fats at the present time would only exacerbate the serious disruptions which have occurred on the oils and fats market,

8. Is convinced that the relatively low tax on oils and fats proposed (Commission proposal. 7.5 ECU per 100 kg oils and fats) will not impair the present desirable growth in Community oilseed production, because it will not influence demand from the processing industry,

9. Is convinced that the price increases, produced by the proposed modest tax on oils and fats particularly in the field of vegetable fats, will be minimal and must be accepted in return for the desired equilibrium on the oils and fats market,

10. Trusts that the proposed tax on oils and fats cannot be misused as a new means of increasing Community revenue as it is earmarked for a specific purpose and will only be used to cover costs in the oils and fats sector,

11. Approves the Commission proposal and calls on the Commission to expedite negotiations with a view to concluding voluntary self-restraint agreements,

12. Recognizes fully that voluntary self-restraint agreements cannot take effect immediately and therefore calls on the Commission to submit in one year's time a report to the European Parliament on the progress achieved and reserves the right to call for changes to the tax on oils and fats in the light of this report,

13. Instructs its president to forward to the Council and Commission, as Parliament's opinion, the Commission's proposal as voted by Parliament and the corresponding resolution.

B

EXPLANATORY STATEMENT

1. Introduction

This proposal for a regulation includes all oils and fats of vegetable and animal origin intended for food or animal feed with the exception of butter. To date, the organization of the market in oils and fats other than butter has not been subject to any restrictive measures and this, coupled with low manufacturing costs has, in the Commission's opinion, created an imbalance on the market for oils and fats as a whole. Vegetable oils occupy a dominant position on the market for oils and fats other than butter. They are manufactured mainly from oilseeds or seed oils imported relatively cheaply and, in the Commission's view, are primarily responsible for disrupting the entire oils and fats sector. This report therefore centres on vegetable oils manufactured from oilseeds.

2. The present situation in the oils and fats sector

2.1. The common organization of the market in vegetable oils is established mainly by Regulation No. 136/66 (rape, colza, sunflower and olive oil) and Regulation No. 1614/79 (soya). The common organization of the market in animal fats was characterized at the outset by a large Community shortage in this sector. Import arrangements were therefore extremely flexible and practically no quantitative restrictions or levies were applied. Only import duties were applied and these were set at zero for seeds and oilcake and between 5% and 15% for oils depending on the degree of processing. However, in the last 20 years, the Community's degree of self-sufficiency in vegetable oils (excluding olive oil) has increased from 10% in 1963 to 20% in 1980. In the same period, the degree of self-sufficiency in olive oil rose from 80% to 86%.

The following table shows the situation on the market including that of the prospective members, Spain and Portugal.

Overall situation on the vegetable oil market - excluding olive oil

Situation EEC - 10: 1980 in 1,000 t

	EEC-10	Spain	Portugal	EEC-12
Production from:				
domestic oilseed	1,036	213	7	1,256
imported oilseed	2,875	558	167	3,600
Total production	3,911	771	174	4,856
Imports	1,823	105	22	1,950
Exports	683	385	37	1,150
visible consumption	5,051	491	159	5,701
degree of self-sufficiency (%)	21	43	4	22

Source: Economic and Social Committee (ECOSOC), Doc. CES 334/82/fin.

The table clearly shows that large quantities of oilseed and oil are imported by the Community. It should also be noted that Spain's degree of self-sufficiency in vegetable oil (excluding olive oil) is twice that of the Community of Ten.

The considerable increase in the production of rape, colza and sunflower seeds, for which guaranteed thresholds have been or are to be introduced, has led to a slight increase in the degree of self-sufficiency and a correspondingly lower level of dependence on imports.

The following tables give the statistics for Community supply in the individual products:

Overall situation in the vegetable oil sector excluding olive oil - /supply 1980 - EC9

Liquid oils - in 1,000 t

	ground-nut	soya	rape/colza	sunflower	benne	cottonseed	other	total
Production	50	2,008	920	568	4	-	36	3,586
- raw materials produced in EC	0	3	780	125	0	-		908
- imported raw materials	50	2,005	140	443	4	-		2,651
Imports	353	23	18	23	0	11	27	455
Total	403	2,031	938	591	4	11	63	4,041
Exports	7	323	190	36	0	0	30	586
Internal consumption (including stock fluctuation)	396	1,708	748	555	4	9	37	3,457

Oils rich in lauric acid in 1,000 t

	copra	palm kernel	other	total
Production	123	58	40	221
-from raw materials produced in the EC	0	0	0	0
-from imported raw materials	123	58	40	221
Imports	332	180	3	515
Total	455	238	43	736
Exports	7	9	2	18
Internal consumption	448	229	41	718

Linseed oil - castor oil - palm oil - in 1,000 t

	linseed oil	castor oil	palm oil	total
Production	86	16	-	102
-from raw materials produced in the EC	23	-	-	23
-from imported raw materials	63	16	-	79
Imports	60	58	689	807
Total	146	74	689	909
Exports	24	-	25	49
Internal consumption	122	74	664	860

Source: ECOSOC Document CES 334/82 fin.

The above tables show that the Community depends for almost 80% of its vegetable oils (except for olive oil) on imports.

The following table shows the consumption quantities for the various oils and fats and the percentage of the total quantity for each category (for food or feed):

EUR 10	1982/1,000 t	
	Quantity	Percentage
1. Vegetable fats and oils	5,849	58
2. Animal fats and oils (excluding marine mammals)	2,015	20
3. Fats and oils from marine mammals	686	7
4. Butter	1,620	15
Total	10,170	100

Source: COM(83) 758 final - Situation on the agricultural markets - report 1983

2.2. The flexible import arrangements - zero rates of duty or low rates of duty applied for products made from vegetable fats - which were introduced because of the considerable shortage when the common organization of the market was established, were accompanied by policies designed to support the internal market, encourage the expansion of Community production and ensure a reasonable income for Community producers. The world market price of vegetable oils was and still is considerably lower than the Community production cost and market price.

The support measures for the individual products are the following:

I. Rape, colza and sunflower seeds

(a) Target price:

This pricing arrangement is designed to take into account producer incomes and the need to maintain Community production levels.

(b) Intervention price:

This is the price at which intervention agencies purchase from the producer; this pricing arrangement is designed to support incomes and eliminate market fluctuations.

(c) Aid to oil-mills

The weekly level of aid corresponds to the difference between the target price and the world market price. Since oilseeds are not subject to import levies, this subsidy is designed to enable oil-mills to purchase Community products under conditions at least as favourable as those applying to imported seed.

II. Soya, castor and cottonseed

(a) Norm price:

This pricing arrangement is also designed to take into account the producers' income and Community demand.

(b) Minimum price:

This pricing arrangement is designed to enable producers to sell their products at a rate which is as close as possible to the norm price.

(c) Subsidies

The subsidies correspond to the difference between the norm price and the world market price and are paid to the purchaser or processor provided that the producer has received the minimum price.

III. Linseed

Norm prices and subsidies are applied to this product under the conditions described under II.

IV. Olive oil

The difference in the market price for olive oil and the price of other vegetable oils and fats has progressively increased over the years, leading to a considerable drop in olive oil consumption. In 1976, therefore, an amendment to Regulation No.136/66 introduced support measures for olive oil by means of production aid and consumption aid. Production aid is fixed on an annual basis and guarantees a certain level of income to producers while consumption aid guarantees market openings for olive oil in the Community, taking into account the price of competing vegetable oils. Such assistance is given to undertakings engaged in bottling and marketing olive oil within the Community.

2.3 Since the Community is only 20% self-sufficient in vegetable oils, considerable quantities of oilseed and seed oil are imported. The following two tables show the main suppliers of the Community in oilseed and oils respectively. (as at 1981/1982) :

Quantity (1,000 tons)		% PURCHASED FROM MAJOR SUPPLIERS as a % of the total quantity			
groundnut	348	(83%)	of which :	USA	(57%)
				Argentina	(11.6%)
				South Africa	(6%)
				China	(5.6%)
soya	1,753	(99.9%)	of which :	USA	(84%)
				Argentina	(10.3%)
				Brazil	(4.2%)
rape/colza	437	(99%)	of which :	Canada	(74.2%)
				Sweden	(18.3%)
sunflower seed	1,283	(99%)	of which :	USA	(90.6%)
				Canada	(6.5%)
copra	188	(92%)	of which :	Philippines	(34.4%)
				Papua/New Guinea	(18.4%)
				Indonesia	(18%)
palm kernels	130	(93%)	of which :	Nigeria	(73%)
linseed	257	(98%)	of which :	Canada	(77.6%)
				Argentina	(18.2%)
groundnut oil	353	(87.5%)	of which :	Brazil	(29%)
				Argentina	(27%)
				Senegal	(18%)
soya oil	23				
rape oil/colza oil	18				
sunflower oil	23				
copra oil	332	(90%)	of which :	Philippines	(71%)
				Papua/New Guinea	(9%)
palm-kernel oil	180	(93%)	of which :	Malaysia	(39%)
				Nigeria	(31%)
				Zaïre	(10%)
linseed oil	60				
castor oil	58				
palm oil	689	(94%)	of which :	Malaysia	(40%)
				Indonesia	(37%)
				Ivory coast	(9%)

Source: ECOSOC Document CES 334/82 fin.

It should be noted that a large percentage of groundnut, soya and sunflower seed is supplied by the USA, while the developing countries are the main suppliers of imported vegetable oil.

Soya accounts for 80% of imported oilseed. More than 45% of world trade in soya involves the Community, which imports approximately 85% of its requirements from the USA. It should be noted that soya is imported mainly because of its protein content and its importance for animal feed. From 11 million tons of soya it is possible to produce approximately 9 million tons of soya cake as a source of protein and 2 million tons of soya oil. The quantity of soya oil produced when soya cake is manufactured is equivalent to more than half of the total Community production of vegetable oils excluding olive oil.

!.4 In its memorandum to the Council on the reform of the Common Agricultural Policy[1] the Commission refers to the introduction of a levy on certain oils and fats. The development of the EC market in animal and vegetable oils has given rise to considerable imbalances. Apart from Community price policies the arrival of imported products from third countries free of duty has added to the imbalance on the market between olive oil and other vegetable oils on the one hand and between butter and other fats on the other. This has caused a drop in the consumption of butter and olive oil and pushed up costs in the oils and fats sector. Increased Community oilseed production has also made far higher costs, since producers receive aid to enable them to compete on the market with products imported at world market prices. These market support measures, which are now costing approximately 600 million DM annually, are being pushed up by increasing Community oilseed production. Producer and consumer aid for olive oil, currently amounting to 700 million ECU annually, will considerably increase following the accession of Spain which has a 135% degree of self-sufficiency in olive oil (self-sufficiency of the Community of Ten : 96%). The import of oilseed free of duty also affects other production sectors, since the oilcake produced from these seeds contributes to increased production of animal fats in the dairy sector.

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[1] COM(82) 500 final of 28.7.1983

In order to restore a balance on the market, certain measures (coresponsibility levy on milk and guarantee threshold for milk and oilseeds) have been taken with a degree of success. One restructuring measure proposed by the Commission is a supplementary levy on quantities of milk in excess of a certain quota. This would involve more stringent checks on butter production and hence a substantial degree of intervention on the market, while no equivalent measures would apply to other oils and fats.

3. The Commission's proposals

3.1. The objective of the Commission's proposal for a directive is the introduction of a tax on oils and fats other than butter with the exception of those not intended for food or feed, thereby restoring market balance in the entire oils and fats sector. The tax is to be levied as of 1 January 1984 on products listed under the CCT headings in the annex.

These include:

(a) oils and fats of vegetable or animal origin excluding those intended for uses other than for food or feed
(b) goods containing products listed in (a) or manufactured from these products.

The tax is to be levied on oils and fats of vegetable or animal origin, whether produced in the Community or imported. Member States will be required to monitor the quantities leaving the premises of any undertaking producing oils or fats.

The tax is set at 7.5 ECU per 100 kilograms of animal and vegetable oils and fats and is expected to yield an annual revenue of 600 million ECU. It is calculated that a further 60 million ECU per year can be saved in consumption aid for olive oil. Slight savings are expected in subsidies to the baking and ice-cream industries for butter purchases. A slight reduction in these subsidies is considered possible, since they are based on the difference in price between butter and vegetable fat, which would be reduced if the proposed tax on oils and fats were levied.

The purpose of the tax is to stabilize the market in oils and fats and the income from it is to be used to finance expenditure in this sector.

The Commission calculates that consumer prices will only be slightly affected by the tax. The increase in the price of vegetables oils and margarine is estimated at between 3% and 8% depending on type and quality, that is to say, an additional 0.78 ECU per month approximately for a family of four whose average annual consumption of vegetable and animal fats (excluding butter) was 31 kilogrammes per head. However, this does not take account of possible price rises for certain animal products (poultry, eggs, sausages and meat) resulting from the levy, which, by increasing the cost of fodder containing oilseed might push up production costs.

While the tax would reduce the difference in price between butter and margarine, this reduction would, in the Commission's opinion, be so small that it would lead to only a slight drop in imports as a result of lower consumption of vegetable oils and margarine. This becomes clear when current prices are compared. The intervention price for butter is approximately 357.86 ECU per 100 kilograms, while the margarine price varies between 122 and 212 ECU per 100 kg, depending on quality and Member State. The increase in the price of margarine resulting from the tax would be approximately 6.63 ECU per 100 kg, which would still leave a considerable difference in price.

3.2. The tax on oils and fats proposed by the Commission must also be viewed in the light of international trade relations, in particular with the USA, the largest supplier of raw materials for Community oil producers. The Committee on Agriculture takes the view, however, that the tax is not likely to cause conflict and will not affect competition between imported products and similar commodities produced in the Community, since it is always levied at the same rate irrespective of origin. This means that the tax is in conformity with the General Agreement on Tariffs and Trade (GATT) and that the Community's commitments concerning imported products free of duty accepted in previous negotiations on customs tariffs are respected. Furthermore, the tax is non-discriminatory since, on the one hand, it applies to products widely available in the Community and, on the other, the tax has been fixed at a level designed to avoid substantially affecting Community consumption of oils and fats and hence the revenue of third countries.

4. Effectiveness of the Commission's proposal

It is doubtful whether the proposed tax on oils and fats can now reduce the existing imbalances in the animal and vegetable fats sector. The proposed tax does not strike at the root of the problem of distortion, that is to say the flexible import arrangements with zero rates of duty for oilseeds and low rates of duty for seed oils. While the tax is non-discriminatory and hence in conformity with GATT provisions, it still runs counter to provisions on Community preference embodied in the EEC Treaty, a problem which arose as a result of the flexible import arrangements. The tax is expected to yield 600 m ECU, which is equivalent to the annual amount currently spent on support measures in the Community oilseed sector. Hence it constitutes a compensatory factor rather than a means of regulating the market.

5. Adoption of the Commission's proposal

5.1. The committee considers that the present situation has arisen mainly as a result of flexible import arrangements. The cost of market support measures for Community products is incurred as a result of the entry of imports practically free of duty, since intervention measures and subsidies are then necessary to restore the competitivity of Community products. Much of the cost of marketing butter fat undeniably results from the difference in price between butter fats and vegetable fats and the fact that the latter are imported free of duty, as can be seen from a comparison of the intervention price of butter (357.86 ECU per 100 kg) and the price of margarine (between 122 and 212 ECU per 100 kg).

5.2. It is important to note that the proposed levy on oils and fats is in conformity with GATT rules and gives no reason for any third countries - in particular the USA - to call for compensatory measures. It is therefore a suitable means of preventing any short-term aggravation of the already distorted oils and fats market.

However, a lasting and comprehensive improvement can be achieved only by increasing the Community oilseed and oil production and reducing duty-free imports and imports on favourable terms from third countries, to a level consistent with market requirements. This would also provide an incentive for substituting the production of so-called surplus products for the cultivation of the necessary oilseeds.

It is therefore necessary for the Commission to commence negotiations with third country suppliers with a view to concluding voluntary restraint agreements similar to those already successfully concluded in other sectors.

Priority should be given to negotiations with the USA, which is the Community's main supplier of groundnuts, sunflower seed and soya. The Community is the largest importer of soya from the United States; in 1982 it imported 15.5 million tonnes at a value of 3,600 million dollars. If negotiations on quantitative restrictions proved fruitless changes to the tax on oils and fats would be necessary.

OPINION

of the Committee on Budgets for the Committee on Agriculture

Draftsman: Mr H. J. LOUWES

On 23 November 1983 the Committee on Budgets appointed Mr LOUWES draftsman of the opinion.

It considered the draft opinion at its meeting of 26 January 1984 and adopted the conclusions unanimously.

The following took part in the vote: Mr LANGE, chairman; Mr NOTENBOOM, vice-chairman; Mr LOUWES, draftsman; Mr ARNDT, Mrs BOSERUP, Mr KELLETT-BOWMAN, Mr LANGES, Mrs NIKOLAOU, Mr ORLANDI, Mr PROTOPAPADAKIS, Mr ROLAND (deputizing for Mr ANSQUER) and Mr Konrad SCHÖN.

1. This proposal concerns the introduction of a tax on oils and fats of vegetable and animal origin with the exception of those intended for use other than for food or feed, and with the exception of butter (Article 1). The Commission document contains only the text of the proposal and a financial statement with no explanatory memorandum.

2. In the financial statement the financial implications of the introduction of a tax on certain oils and fats are estimated, for a twelve-month period, at

- minus 524 million ECU from the tax itself: 6.8 million tonnes multiplied by 75 ECU per tonne and
- minus 56 million ECU as a result of the reduction in consumption aid for olive oil: 172.5 ECU per tonne multiplied by 330,000 tonnes.

In COM(83) 500 final (Common agricultural policy: Proposals of the Commission), the revenue from the levy was estimated at 600 million ECU.

3. The proposed tax is not an import levy. It is to be levied on all the products listed in the annex to the regulation and obtained in the Community. It applies both to oil and fats themselves and to goods containing oils and fats or manufactured from these products. In order to prevent speculative transactions when this tax is introduced, Article 6 lays down that the tax shall also be levied on those products in stock on 1 January 1984 which are in excess of a certain quantity.

4. In its resolution of 18 November 1983 on COM(83) 500 final, Parliament did <u>not</u> adopt the paragraph proposed by the rapporteur approving the principle of this tax on oils and fats. In another paragraph, Parliament restricted itself to stating simply that all taxes of this type should be adjusted in such a way as to reduce the difference in price between seed oils and olive oil (paragraph 11).

5. The Commission of the European Communities has stated that its objective in introducing this tax is to reduce the imbalance between, on the one hand, butterfats, which are subject to a policy of controlling production, and on the other, other oils and fats for which there are no equivalent measures. The Commission refers in this connection to coresponsibility levies, guarantee thresholds and quantitive restrictions on production in the dairy sector.

However, the Commission was unable to make clear to the Committee on Budgets how this measure would reduce such imbalances in practice. Apart from its inflationary effect - this tax will firstly lead to an increase in the consumption price of the products concerned - the economic consequences of this proposal are not self-evident. In itself, this tax cannot guarantee that expenditure in the oils and fats sector and the milk and dairy products sector will really fall. After all, what is involved here is not a reduction in expenditure but the creation of new sources of income to finance such expenditure. Apart from the saving on consumption aid for olive oil, the net effect of this measure appears, therefore, to be limited to replacing VAT revenue by the proceeds from a new tax as a source of finance for a certain amount of the expenditure by the revenue from a new tax.

6. Article 7 of the proposal states that 'the tax introduced by this Regulation shall be considered as forming part of the measures to stabilize the agricultural markets, and the income from it shall be assigned for the financing of the expenditure of the common organization of the market in the oils and fats sector'.
In budget terms, this article means that the revenue from this tax will be entered in the budget under expenditure and expressed as a negative amount. Parliament has repeatedly protested at this procedure used by the Council and Commission since it contradicts the fundamental principles of budgetary law. The Committee on Budgets has also opposed proposals to amend the Financial Regulation in order to legalize negative expenditure. The second part of Article 7 implies that revenue from the tax on oils and fats will be used exclusively to finance expenditure in the oils and fats sector, thereby contradicting Article 3 of the Financial Regulation which lays down that all revenue shall be used to cover all expenditure.

CONCLUSION

7. For the reasons given above and because of the commitments the Community has entered into under GATT, the Committee on Budgets rejects this proposal, which does not preclude this matter being reconsidered within the framework of GATT.