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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. 563/77) for a regulation laying down, in respect of hops, the amount of the aid to producers for the 1977 harvest

Rapporteur: Mr I. FRÜH

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By letter of 22 February 1978 the President of the Council of the European Communities requested the European Parliament, pursuant to Article 43 of the EEC Treaty, to deliver an opinion on the proposal from the Commission of the European Communities to the Council for a regulation laying down, in respect of hops, the amount of aid to producers for the 1977 harvest.

By letter of 1 March 1978 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.

The Committee on Agriculture appointed Mr Früh rapporteur.

It considered the proposal at its meeting of 30 and 31 March 1978 and unanimously adopted the motion for a resolution.

Present: Mr Kofoed, chairman; Mr Liogier and Mr Ligios, vice-chairmen; Mr Früh, rapporteur; Mr Andersen, Lord Brimelow, Mr Hansen, Mr Hoffmann, Mr Klinker, Mr Lemoine, Mr Willi Müller, Mr Noè (deputizing for Mr Pisoni), Mr Tolman and Mr Veronesi (deputizing for Mr Pistillo).

The opinion of the Committee on Budgets is attached.

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A

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

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the proposal from the Commission of the European Communities to the Council for a regulation laying down, in respect of hops, the amount of the aid to producers for the 1977 harvest.

The European Parliament,

- having regard to the proposal from the Commission of the European Communities to the Council¹,
 - having been consulted by the Council pursuant to Article 43 of the Treaty establishing the European Economic Community (Doc. 563/77),
 - having regard to the report of the Committee on Agriculture and the opinion of the Committee on Budgets (Doc. 40/78),
1. Approves the Commission's proposal;
 2. Urges the Commission to continue its efforts to establish a balance in the hop market, above all by means of concerted action with third countries.

¹ OJ No. C 44, 22.2.1978, p.4

EXPLANATORY STATEMENTI. SITUATION ON THE WORLD HOP MARKET

1. Since there is a very large volume of international trade in hops, hop prices are strongly influenced by the relationship between supply and demand on the world market.

The United States and the Community are the largest world exporters of hops, exporting 33% and 30% respectively of their production.

2. Closer analysis reveals that Germany has an export capacity of 412,000 Ztr (20,600 tonnes), the United States 188,000 Ztr (9,400 tonnes) and Czechoslovakia 140,000 Ztr (7,000 tonnes) corresponding to 1,386 tonnes, 696 tonnes and 282 tonnes of alpha acid respectively. These three countries account for more than three-quarters of world exports of hops and alpha acid.

3. The greater part of American production (95%) is carried out under contract, while Germany sells a large proportion of its production on the open market (normally between 20 and 30%; in 1977: 38%). The existing surplus on the world market means that Germany is particularly vulnerable to the reduction in the price of hops.

4. In 1977, world production reached a record level of 115,800 tonnes from an area of 78,044 ha, which represents a yield of 1.48 tonnes per hectare. The Commission estimates that unsold stocks amount to 6,000 Ztr (300 tonnes) in the Community, 10,000 Ztr (500 tonnes) in Czechoslovakia and 500 Ztr (25 tonnes) in Australia.

As a result of this overproduction, prices on the open market have fallen to an extremely low level, as shown in the attached Table I.

5. For the 1978 harvest a reduction of about 1,200 hectares in the world area under hops is expected, mainly as a result of a reduction of 1,200 ha in the Community, since an increase of 400 ha is expected in the COMECON countries, balanced by a reduction of 400 ha in the rest of the world.

Nevertheless, even if there is a normal yield, a slight surplus of supply over demand is expected. Moreover, given the size of stocks, it is probable that the price of hops will remain too low to ensure the profitability of holdings.

6. In the light of consumption trends, the solution to the problem of surpluses on the hop market now lies in reducing the world area under hops. Despite an increase of 3.5% per year in world beer consumption, demand for hops is increasing by only 1-1.5% per year on account of their high alpha acid content. The problem is therefore one of adapting supply to consumption on a permanent basis. Although in recent years there has been a preference for bitter rather than aromatic varieties, there may well be a revival of demand for the latter. This situation shows how difficult it is to adapt the supply of hops to demand.

II. SITUATION ON THE COMMUNITY HOP MARKET

7. In 1977, Community production totalled 47,500 tonnes of hops (41% of world production), or 3,325 tonnes of alpha acid. Since 1971, varieties with a high alpha acid content have tended to replace aromatic varieties: between 1971 and 1977 the share of the former increased from 29% to 47% of production, while that of the latter fell from 70% to 50%.

8. The Commission estimates that stocks held by brewers and in trade in the Community, which were already 20% higher than usual at the beginning of the 1977 harvest, could reach a surplus of 50% as a result of the high yield from that harvest. This situation of over-production is exacerbated by the fact that the breweries are using less hops to produce the same quantities of beer as a result of technical progress in the manufacture of beer.

9. A harvest of around 45,000 tonnes is expected in 1978. Sales under advance contract are estimated at 70% of production, or 32,500 tonnes, which means that 12,500 tonnes of hops will have to be sold on the open market. In view of the expected world surplus in 1978 and the high level of stocks, prices could prove inadequate.

10. According to the Commission, the area under hops in the Community should fall by between 1,000 and 1,500 hectares during 1979 and 1980. However, stabilization of the Community market is closely linked to a reduction in area at world level.

III. CHARACTERISTICS OF THE 1977 HARVEST

11. In 1977 the area under hops in the Community fell by 589 ha, the largest reduction being in Germany.

There was a reduction in the Hallertauer, Northern Brewer, Bullion, Tettnanger and Bramling Cross varieties and an increase in the Hersbrucker

Spät, Challenger, Northdown, Target and Saxon varieties.

12. In 1977, the average yield in the Community was 34.9 Ztr (1.745 tonnes) per hectare compared with 28.5 (1.425 tonnes) in 1976, production totalled 47,500 tonnes compared with 39,900 in 1976 and 652 hectares were newly planted as compared with 1,281 in 1976.

13. The surplus situation has led to a reduction in the price of hops (Table II). However, the reduction is much greater for sales on the open market than for sales under contract.

For the same reason there has been a reduction in the quantities marketed under advance contract, since the breweries prefer to obtain their supplies more cheaply on the open market. On the other hand, quantities not marketed under contract are increasing (Table III).

14. Between 1975 and 1977 there was a decline in growers' total returns:

- 1975 : 77,282,544 u.a.
- 1976 : 76,052,181 u.a.
- 1977 : 73,826,338 u.a.

However, the Commission notes that in 1977 there were 7,796 producers in the Community compared with 8,502 in 1976. Although growers' overall returns fell by 3% in 1977 compared with 1976, the average return per grower increased by 5.8% (1976: 8,945 u.a.; 1977: 9,470 u.a.).

IV. THE COMMISSION'S PROPOSALS

15. The Commission's proposals form part of the Community's policy based on Regulation (EEC) No. 1696/71 on the common organization of the market in hops¹, intended on the one hand to adapt production to consumption and on the other, to improve quality by certifying products (see Regulation (EEC) No. 1784/77 concerning the certification of hops²).

¹ OJ No. L 175, 4.8.1971, p.1

² OJ No. L 200, 8.8.1977, p.1

16. In fixing the aid to producers for the 1977 harvest, the Commission is seeking

- (1) to provide a substantial supplement to producer incomes in view of low prices, while at the same time taking account of the need to pursue a policy of establishing overall equilibrium between supply and demand;
- (2) to vary the aid between varieties so as to orientate Community production more effectively, in the light of trends on the European and world markets. It will be noted that this is the first time that hop varieties have been grouped together in three broad categories (aromatic, bitter and other varieties). This will do much to simplify the Community's regulations in this sector.

17. The Commission proposes the following changes:

- for aromatic varieties, (an increase of 5.2%) from 342 u.a./ha in 1976 to 360 u.a./ha (total: 12,723 ha);
- for bitter varieties, (an increase of 11%) from 243 u.a./ha in 1976 to 270 u.a./ha (total: 12,067 ha);
- for other varieties, (a reduction of 8.75%) from 548 u.a./ha in 1976 to 500 u.a./ha (total: 499 ha).

18. Furthermore, in accordance with Article 12(4) of Regulation (EEC) No. 1696/71¹, the Commission proposes that areas under hops in the first or second year of production in 1977 should be excluded from Community aid per hectare, since for several years there has been a surplus situation on the market.

V. CONCLUSIONS

19. The Commission's proposals correspond to the objectives set out in point 16.

- (a) The aid to groups of varieties is fixed on the basis of increases in production costs and of demand on the Community market. Thus, allowing for Community aid, producer incomes for the 1977 harvest should be the same as for 1976, even though there was a further deterioration on the market in 1977.
- (b) The Commission wishes to discourage new plantings by not granting them any aid; this is an appropriate means of achieving balance between supply and demand.
- (c) Finally, this aid should enable production to be orientated more effectively, since there may be an increase in demand from brewers for aromatic varieties, whereas in recent years there has been a preference for bitter varieties.

¹ See Regulation (EEC) No. 1696/71 (OJ No. L 175, 4.8.71, p.1), as amended by Regulation (EEC) No. 1170/77 (OJ No. L 137, 3.6.77, p.7).

20. To eliminate surpluses on the hop market it is necessary to reduce the area under hops. Only by reducing supply will it be possible to increase the price of hops and hence growers' returns.

21. Nevertheless, the efforts made by the Community to reduce the area under hops should not be thwarted by measures which might be taken by growers in third countries. Community growers must not be the victims of a lax attitude on the part of third countries.

For this purpose the Community should agree with third countries on a joint reduction of the area under hops. As a priority the Council should therefore instruct the Commission to reach such an agreement with the United States, which is the second largest world producer after the Community.

22. Subject to this reservation the Committee on Agriculture approves the Commission's proposals.

TABLE IPrice of hops on the world market(price Ztr¹ in u.a.)

VARIETIES	1975	1976	1977
Hallertauer	66.1	89.0	38.4
Northern Brewer	61.7	72.1	39.1
Brewers Gold	59.2	76.4	40.3
Hersbrucker Spät	65.7	84.7	33.9
Tettnanger	74.4	98.7	44.6

TABLE IIAverage price of hops in the Community(in u.a./Ztr¹)

	1975	1976	1977
Contracts	94.6	100.2	98.2
Non-contract	60.2	78.8	38.4

TABLE IIIQuantities marketed in the Community

Year	Contracts	%	Non-contract	%
1974	731,351	76.3	227,190	23.7
1975	698,378	77.3	202,672	22.7
1976	620,353	78.1	174,172	21.9
1977	623,643	65.6	327,004	34.4

¹ 1 Ztr = 50 kilogrammes

OPINION OF THE COMMITTEE ON BUDGETS

Letter from the acting chairman of the committee to Mr Niels KOFOED,
chairman of the Committee on Agriculture

Luxembourg, 10 April 1978

Dear Mr Kofoed,

At its meeting of 21 March 1978 the Committee on Budgets considered the proposal for a Council regulation laying down, in respect of hops, the amount of aid to producers for the 1977 harvest.

The purpose of this proposal is to provide 'a substantial supplement to producer incomes' as compensation for the slump in prices resulting from the disequilibrium and persistence of surpluses on the market.

The appropriations required to finance this scheme, for which provision has already been made in the general budget of the European Communities for 1978 (Article 732 - Intervention in respect of hops) amount to 8 m EUA. This sum will be distributed to producers of specific varieties according to certain criteria and will mean that for 1977 the average amount of aid for fully utilized areas will increase from 299 u.a./ha to 320 u.a./ha.

During its examination of the scheme, the Committee on Budgets welcomed the Commission's proposal for excluding from aid areas under hops in the first or second year of production as a means of checking surpluses.

A further point to be made in this connection is that our committee has repeatedly stressed the need, not only for CAP expenditure on price support to be reduced through intervention, but also for measures to be adopted which will effectively help to eliminate structural imbalances and reorientate production.

The committee takes the view, therefore, that the Commission must introduce practical measures to give effect to the principle enunciated in its report on the production and marketing situation in the hop sector, namely that of pursuing 'a policy of establishing overall equilibrium between supply and demand'.

Subject to this reservation, the committee believes that, as far as its own sphere of competence is concerned, it can endorse the proposal for a regulation in question.

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(sgd.) Heinrich Aigner

Acting Committee Chairman

Present: Mr Aigner, acting chairman; Mr van Aerssen, Mr Alber, Mr Amadei, Lord Bruce of Donington, Mrs Dahlerup, Mr Hansen, Mr Kofoed, Mr Notenboom, Mr Ripamonti, Mr Ryan, Mr Shaw and Mr Spinelli.