



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 15.12.2006
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2006/0256 (CNS)

Proposal for a

COUNCIL REGULATION

**amending Regulation (EC) No 1784/2003
on the common organisation of the market in cereals**

(presented by the Commission)

EXPLANATORY MEMORANDUM

1. INTRODUCTION

In 2005 world cereal production totalled 1,599 Mt, slightly less than consumption (1,614 Mt) while world maize production and consumption amounted, respectively, to 693 and 699 Mt. Maize accounts for slightly less than half of the world's total production and consumption of cereals. While maize is used in a wide range of food and industrial products, it is still mainly used as animal feed, although its use as a feedstock for the production of bioethanol is growing rapidly, especially in the United States.

In the 2005/06 campaign, the area under maize in the EU exceeded 6 million hectares, representing almost 12% of the total cereal area. Production reached almost 50 Mt, with two-thirds of the total output originating in France (28%), Italy (20%) and Hungary (18%). In the EU-27, Romania will have a leading position as a maize producer, second only to France, with a 17% share of total EU production.

In the medium term, the future of the cereal sector in the EU will be shaped by the following developments:

- increased international competition due to the liberalisation of international trade;
- development of biofuel production. In 2004, the EU used around 1.2 Mt of cereals for the production of bioethanol or 0.4% of the total EU-25 harvest. The use of cereals for biofuel production is increasing at a rapid pace in the Community but the setting up of new processing plants is a lengthy process;
- with the accession of Romania and Bulgaria, the current domestic imbalance in cereal markets due to high internal transport costs will be further aggravated.

2. THE EU CEREAL INTERVENTION SYSTEM

The EU intervention system for cereals is a single floor price of €101.31/t¹ applicable to all major cereals across the EU². In most Member States market prices tend to be above the level of this buying-in price, offers to intervention are moderate and, as a result, stocks are normally kept at manageable levels. In southern MS, where consumption surpasses production, prevailing market prices tend to be higher and there is barely any offer to intervention.

However, the current intervention price is attractive in regions of the Community with lower production costs. Far from the main areas of consumption, these are generally regions where operators are faced with high transport costs and logistical difficulties. In these regions the EU buying-in scheme no longer serves the purpose of a safety net and has turned into a real commercial outlet, for which part of the harvest is systematically destined. As a result, deficit areas in the Community suffer from high prices for cereals, while large quantities of cereals are bought into intervention in surplus regions.

¹ With monthly increases.

² Available for breadmaking wheat, durum wheat, barley, maize and sorghum; not available for feed wheat, rye and oats.

At the end of the 2003/2004 harvest, total intervention stocks in the EU-25 had fallen to a historically low level of 3.6 Mt. In 2004/05, as a consequence of the large harvest of more than 285 Mt, they rapidly rose to 15.5 Mt, in spite of several measures taken on the internal and external markets to dismantle intervention stocks. In 2005/2006, end stocks show only a slight trend downwards (14 Mt) and this following a significantly smaller harvest (253 Mt).

The accession of Bulgaria and Romania is likely to aggravate this situation. Climatic and structural conditions in these countries are ideal for producing cereals and low production costs mean that the current intervention price will be extremely attractive to producers in these countries. Although both Bulgaria and Romania have seaports, the inland transport infrastructure from the growing areas to the port facilities is generally underdeveloped and the systematic disposal of large quantities of cereals into intervention can be a profitable option for operators.

3. THE PROBLEMS ASSOCIATED WITH MAIZE INTERVENTION

Historically the EU was a net importer of maize and at the end of the 2003/04 marketing year – as for many years before – there were no stocks of maize in intervention. Today maize has become the main problem for the intervention system.

At the end of the 2004/2005 campaign, total EU intervention stocks of maize in the EU-25 reached 2.8 Mt. One year later the total amount reached a record 5.6 Mt, already accounting for 40% of total intervention stocks, despite the maize harvest in the Community being 5 Mt less than the previous year. Regions that prior to accession exported maize to the international market now offer a large part of their harvest to intervention. The bulk (93%) of maize intervention stocks are at present located in Hungary.

According to every market indication the share of maize in intervention stocks will keep growing and at the end of the current marketing year, with a maize harvest comparable to the last campaign, more than 2/3 of total intervention stocks will consist of maize. Commission estimates show that, in the absence of any change in the current intervention system, by 2013 public stocks of maize could amount to 15.6 Mt.

Possible outlets for the soaring intervention stocks of maize are limited. International maize prices are the lowest of all major cereals and resale on the international market would imply a high financial cost. On the other hand, the disposal of intervention stocks on the internal market is constrained by the high transport costs between surplus and deficit areas and might have disruptive effects on the functioning of an internal market already suffering from a severe lack of fluidity.

Technically, the long-term storage of maize entails some difficulties not experienced with other cereals such as wheat or barley. Maize is not suited to intervention and long-term storage. During storage the quality parameters of maize can decline rapidly, triggering the biological deterioration of the grains, including the proliferation of various fungi and pests. Some of the critical elements in this process are the maximum moisture content at buying-in as well as the presence of broken and overheated grains.

The Commission has recently adopted stricter eligibility criteria to ensure that maize entering intervention is more suitable for long-term storage, namely the reduction of the maximum moisture content to 13.5% and the percentage of broken and overheated grains down to 5% and 0.5% respectively. This is however not a definitive solution to this problem, as it will not prevent maize intervention stocks building up in future.

4. PROPOSED MEASURES

The EU cereal intervention system requires an urgent adjustment for maize as, otherwise, farmers in certain regions of the Community will continue to grow this cereal for intervention and public stocks will not stop rising. Along the lines of the 2003 CAP reform, farmers should base their decisions on market signals, including demand by private operators. This principle applies equally to cereal farmers in maize surplus areas, who ought to produce for the market, not for public buying-in.

The Commission is of the view that intervention purchases of maize have to be abandoned from the 2007/08 marketing year. This would allow the EU cereal market to find a new balance and cereal intervention to resume its intended role as a safety net. Throughout the Community cereal growers will continue to benefit from an intervention scheme for major cereals including wheat and barley. Experience with rye has shown that the removal of this cereal from intervention in 2003 has resulted in a more dynamic market, more market-oriented production and better prices for farmers.

Maize sowings are carried out only in spring. The timing of this proposal is therefore fully appropriate for farmers taking their decisions in view of the 2007 maize sowings.

To complement this proposal the Commission will submit without delay to the Council a proposal for a temporary amendment of the financing conditions by EAGF for cost of the funds mobilised by Member States for public storage operations. This measure will provide alleviation in 2007 and 2008 for additional costs for such operations incurred by Member States with very high internal interest rates. The Commission considers that the proposal for abolition of the Maize intervention and the proposal for the temporary financial alleviation are interlinked and should be adopted by the Council at the same time.

5. IMPACT OF THE MEASURES PROPOSED

Once the proposed reform enters into force the price received by maize growers in surplus Central European regions would not change significantly, as today there is already a big gap between the intervention price and the prices actually paid to farmers in these regions. As a result, the proposal is not expected to lead to any significant reduction in maize production in the Community.

The implementation of this proposal would contribute to enhancing the integration of the EU cereal market. Maize grown in the surplus Central European regions will regain its competitiveness, both domestically and on world markets, to which it would be exported with no support as in the past. The proposal would also help boost the competitiveness of pig and poultry production in these regions by reducing the cost of feedstuffs and so underpin the economic development of the areas concerned.

The overall level of intervention stocks would diminish substantially. While maintenance of the current system would lead in 2013 to a total volume of 18.9 Mt (of which 15.6 Mt of maize) the removal of maize from intervention would result in total stocks amounting to only about 10 Mt that year. Moreover, stocks would consist exclusively of cereals suitable for long-term storage (soft wheat and barley) and they would almost certainly be better located for trading purposes.

6. BUDGETARY IMPACT

For the EU budget, public storage of cereals entailed an expenditure of €442 million in the 2005 budget year. For 2006 expenditure of around €350 million is expected and the amending letter to the preliminary draft budget sets the need for cereal intervention in 2007 at €316 million, of which €136.9 million only for maize.

Whereas the status quo would keep the annual level of cereal public storage expenditure above €300 million, this proposal would entail a global economy of €617.8 million over the period 2008–2014. Annual expenditure would fall below €300 million as from the 2008 budget year and below €200 million as from 2012.

7. SIMPLIFICATION

By making cereal intervention simpler and more effective, this proposal is to be seen as a further contribution towards the simplification of the CAP.

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**amending Regulation (EC) No 1784/2003
on the common organisation of the market in cereals**

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular the third subparagraph of Article 37(2) thereof,

Having regard to the proposal from the Commission,

Having regard to the opinion of the European Parliament,

Whereas:

- (1) The measures concerning the common organisation of the market in cereals, as adopted under Council Regulation (EC) No 1784/2003³, comprise in the case of the internal market an intervention system, the main aim of which is to stabilise the markets and ensure a fair standard of living for the agricultural community in this sector.
- (2) The application of this system over the last two marketing years has had the effect of creating very substantial intervention stocks of maize which, by virtue of their location, are proving particularly difficult to dispose of on the Community and international markets. In addition, maize is a cereal which is not easy to preserve and which, by virtue of the gradual deterioration in its quality, becomes increasingly difficult to market the longer it is stored.
- (3) Furthermore, at the end of this period, it was established that, under the intervention system as applied hitherto, it is no longer possible to achieve the objectives pursued, particularly as regards the position of maize producers in certain regions of the Community. Indeed, this system has become in those regions an alternative to the direct disposal of products on the market, despite the fact that the price actually received by these producers for the harvested maize has often been lower than the intervention price.
- (4) Under these circumstances, and specifically as far as maize is concerned, the intervention system no longer fulfils the purpose for which it was set up while moreover preventing production from being geared towards the needs of the market.

³ OJ L 270, 21.10.2003, p. 78. Regulation as amended by Regulation (EC) No 1154/2005 (OJ L 187, 19.7.2005, p. 11).

- (5) The maintenance of the intervention system as such entails the risk of increasing the intervention stocks of maize still further without bringing any benefits to the producers concerned.
- (6) It is therefore necessary to adopt appropriate measures to guarantee the proper functioning of the Community market in cereals. To this end, the discontinuation of the intervention arrangements for maize, as provided for under Regulation (EC) No 1784/2003, would appear to be the most appropriate measure taking into account the facts set out above and the outlets available to producers on the market.
- (7) Regulation (EC) No 1784/2003 should therefore be amended accordingly,

HAS ADOPTED THIS REGULATION:

Article 1

Regulation (EC) No 1784/2003 is hereby amended as follows:

1. In Article 4(1), the second subparagraph is replaced by the following:
"The intervention price valid for sorghum in May shall remain valid in July, August and September of the same year."
2. In Article 5, paragraph (1) is replaced by the following:
 - "1. The intervention agencies designated by the Member States shall buy in any common wheat, durum wheat, barley or sorghum offered to them and harvested in the Community, provided that the offers comply with the conditions laid down, in particular in respect of quality and quantity."

Article 2

This Regulation shall enter into force on the seventh day following that of its publication in the Official Journal of the European Union.

It shall apply from the 2007/2008 marketing year.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the Council
The President

FINANCIAL STATEMENT

1. BUDGET HEADING: (nomenclature 2007) 05 02 01 02		APPROPRIATIONS (LR 2007): €316 Mio				
2. TITLE: Council Regulation amending Regulation (EC) No 1784/2003 on the common organisation of the markets in cereals.						
3. LEGAL BASIS: Article 37 of the Treaty establishing the European Community						
4. AIMS: Removal of maize from the intervention scheme foreseen in Council Regulation (EC) No 1784/2003 on the common organisation of the markets in cereals.						
5. FINANCIAL IMPLICATIONS	12 MONTH PERIOD (EUR million)	FINANCIAL YEAR 2007 (EUR million)			FINANCIAL YEAR 2008 (EUR million)	
5.0 EXPENDITURE						
– CHARGED TO THE EC BUDGET (REFUNDS / INTERVENTIONS)				–		–35,1
– NATIONAL AUTHORITIES						
– OTHER						
5.1 REVENUE				–		–
– OWN RESOURCES OF THE EC (LEVIES / CUSTOMS DUTIES)						
– NATIONAL						
	2009	2010	2011	2012	2013	2014
5.0.1 ESTIMATED EXPENDITURE	–57,9	–40,7	–68,0	–120,6	–132,1	–163,4
5.1.1 ESTIMATED REVENUE						
5.2 METHOD OF CALCULATION: See Annex.						
6.0 CAN THE PROJECT BE FINANCED FROM APPROPRIATIONS ENTERED IN THE RELEVANT CHAPTER OF THE CURRENT BUDGET?						YES NO
6.1 CAN THE PROJECT BE FINANCED BY TRANSFER BETWEEN CHAPTERS OF THE CURRENT BUDGET?						YES NO
6.2 WILL A SUPPLEMENTARY BUDGET BE NECESSARY?						YES NO
6.3 WILL APPROPRIATIONS NEED TO BE ENTERED IN FUTURE BUDGETS?						YES NO
OBSERVATIONS: This proposal would entail a global economy of €617,8 Mio on the period 2008–2014.						

Annex

EUR Mio

1 – Status quo	2008	2009	2010	2011	2012	2013	2014	Total
Total intervention	323,9	326,9	313,7	304,7	314,0	315,9	337,9	2 237,1
of which soft wheat	54,1	36,4	28,3	19,2	12,9	12,2	9,0	171,9
of which barley	73,2	69,0	38,0	21,8	23,8	17,2	40,9	283,9
of which maize	196,7	221,5	247,4	263,8	277,3	286,6	288,0	1 781,3

2 – Reform	2008	2009	2010	2011	2012	2013	2014	Total
Total intervention	287,6	267,7	257,7	226,6	188,4	181,1	174,2	1 583,2
of which soft wheat	50,4	36,0	40,6	59,3	70,1	77,0	66,2	399,5
of which barley	89,5	114,4	128,1	122,9	113,1	104,1	108,0	780,0
of which maize	147,7	117,4	89,0	44,4	5,2	0,0	0,0	403,7

3 – Impact proposal = (2) – (1)	2008	2009	2010	2011	2012	2013	2014	Total
Total intervention	-36,4	-59,2	-56,0	-78,2	-125,6	-134,8	-163,8	-653,9
of which soft wheat	-3,7	-0,5	12,3	40,1	57,2	64,8	57,2	227,6
of which barley	16,2	45,5	90,1	101,2	89,3	86,9	67,0	496,2
of which maize	-48,9	-104,2	-158,4	-219,4	-272,1	-286,6	-288,0	-1 377,6

4 – Additional expenditure – export refunds	2008	2009	2010	2011	2012	2013	2014	Total
	1,2	1,3	15,3	10,1	5,0	2,7	0,4	36,1

Total impact = 3 + 4	2008	2009	2010	2011	2012	2013	2014	Total
	-35,1	-57,9	-40,7	-68,0	-120,6	-132,1	-163,4	-617,8